

AUDITING PROCEDURES REPORT

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Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <i>County of Osceola, Michigan</i>	County <i>Osceola</i>
Audit Date <i>December 31, 2004</i>	Opinion Date <i>May 5, 2005</i>	Date Accountant Report Submitted to State: <i>June 24, 2005</i>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ yes ☐ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>		
Reports on individual federal financial assistance programs (program audits).			<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input checked="" type="checkbox"/>		

Certified Public Accountant (Firm Name) <i>Anderson Tackman & Co. PLLC</i>			
Street Address <i>16978 South Riley Avenue</i>	City <i>Hinchebe</i>	State <i>MI</i>	ZIP <i>49788</i>
Accountant Signature <i>Anderson Tackman & Co. PLLC</i>			

COUNTY OF OSCEOLA, MICHIGAN

BASIC FINANCIAL STATEMENTS

December 31, 2004

OSCEOLA COUNTY, MICHIGAN

ORGANIZATION

MEMBERS OF THE COUNTY COMMISSION

COMMISSIONER	DISTRICT	#1	MARK BROCK
COMMISSIONER	DISTRICT	#2	ELMO HOAGLUND
COMMISSIONER	DISTRICT	#3	GLORIA EISENGA
COMMISSIONER	DISTRICT	#4	RONALD STRUBLE
COMMISSIONER	DISTRICT	#5	ROGER FABER
COMMISSIONER	DISTRICT	#6	CLYDE YENCER
COMMISSIONER	DISTRICT	#7	LARRY EMIG

APPOINTED/ELECTED OFFICIALS

COORDINATOR	SUE VANDERPOL
COUNTY TREASURER	CAROL J. HALLADAY
COUNTY CLERK	KAREN BLUHM

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR’S REPORT	1
MANAGEMENT’S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS:	
Government-Wide Financial Statements:	
Statement of Net Assets	8
Statement of Activities.....	9
Fund Financial Statements:	
Balance Sheet – Governmental Funds	10
Statement of Changes in Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds	11
Reconciliation of Governmental Funds:	
Statement of Revenues, Expenditures, and Changes in in Fund Balances to the Statement of Activities	12
Proprietary Funds:	
Statement of Net Assets	13
Statement of Revenues, Expenses, and Changes in Net Assets	14
Statement of Cash Flows	15
Fiduciary Funds:	
Statement of Fiduciary Net Assets	16
Component Unit Financial Statements:	
Statement of Net Assets	17
Statement of Activities.....	18
NOTES TO FINANCIAL STATEMENTS	19

REQUIRED SUPPLEMENTAL INFORMATION:

Major Funds:

Budgetary Comparison Schedule – General Fund.....	42
Budgetary Comparison Schedule – Revenue Sharing Fund.....	44
Budgetary Comparison Schedule – EMS.....	45

OTHER SUPPLEMENTAL INFORMATION:

Combining Balance Sheet – Nonmajor Governmental Funds.....	46
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds	49
Combining Statement of Net Assets – Nonmajor Enterprise Funds	52
Combining Statement of Revenues, Expenses, and Changes in Net Assets – Nonmajor Enterprise Funds	53
Combining Statement of Cash Flows – Nonmajor Enterprise Funds.....	54

FEDERAL FINANCIAL ASSISTANCE:

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	55
Report on Compliance with Requirements Applicable to each Major Program and Internal Control Over Compliance in Accordance with <i>OMB Circular A-133</i>	57
Schedule of Expenditures of Federal Awards	59
Notes to Schedule of Expenditures of Federal Awards	60
Summary of Audit Results	61
Summary Schedule of Prior Audit Findings	63

ADDITIONAL INFORMATION:

Municipal Securities Disclosure Requirements of the Securities Exchange Commission (SEC) Rule 15c2-12	64
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ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

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MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

INDEPENDENT AUDITOR'S REPORT

Honorable Chairman and Members
Of the Board of Commissioners
County of Osceola, Michigan
301 West Upton Avenue
Reed City, MI 49677

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Osceola, Michigan as of and for the year ended December 31, 2004, which collectively comprise the County's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the County of Osceola's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We did not audit the financial statements of the Osceola County Road Commission, which represent 99% and 99% of the assets and revenues of the Discretely Presented Component Units. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, is so far as it relates to the amounts recorded for the Road Commission, is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion and based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Osceola, Michigan as of December 31, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The County of Osceola, Michigan implemented the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – For State and Local Governments as of January 1, 2004. This results in a change in the format and content of the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 5, 2005, on our consideration of the County of Osceola's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management’s Discussion and Analysis and budgetary comparisons as listed in the Table of Contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County of Osceola’s, basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The individual major and combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The additional information regarding the Municipal Securities Disclosure Requirements of the Securities Exchange Commission (SEC) Rule 15c2-12 have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*; and is not a required part of the basic financial statements of the County of Osceola. Such information, except for that portion marked “unaudited,” on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Anderson, Tackman & Company, PLC
Certified Public Accountants

May 5, 2005

Management's Discussion and Analysis

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the County as a whole and present a longer-term view of the County's finances. Fund financial statements tell how services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the County's operations in more detail than the government-wide financial statements.

The County as a Whole

Comparative Analysis to the previous year's financial results is not available due to this being the first fiscal year of implementation of GASB 34. It will be provided in future years when prior year information is available. A few of the general highlights of 2004 were:

- Total net assets were \$11,412,889.
- Governmental activities net assets were \$ 5,493,125.
- Business-type activity net assets were \$ 5,919,764.
- Component Unit net assets were \$ 9,037,925.

There were increases of \$ 1,345,813 and \$ 80,573 in net assets in the Governmental Activities and Business-Type Activities respectively. A gain of \$853,616 in net assets was realized in the Component Units.

In a condensed format, the table below shows the net assets of Osceola County.

	Governmental Activities	Business-Type Activities	Total
	2004	2004	2004
Current Assets	\$ 11,075,404	\$ 5,691,273	\$ 16,766,677
Noncurrent Assets	<u>5,380,969</u>	<u>230,062</u>	<u>5,611,031</u>
Total Assets	<u>16,456,373</u>	<u>5,921,335</u>	<u>22,377,708</u>
Current Liabilities	5,972,020	1,571	5,973,591
Long-Term Debt Outstanding	<u>4,991,228</u>	<u>-</u>	<u>4,991,228</u>
Total Liabilities	<u>10,963,248</u>	<u>1,571</u>	<u>10,964,819</u>
Net Assets			
Invested in Capital Assets -			
Net of Debt	1,209,484	230,062	1,439,546
Restricted	1,563,268	-	1,563,268
Unrestricted (Deficit)	<u>2,720,373</u>	<u>5,689,702</u>	<u>8,410,075</u>
Total Net Assets	<u>\$ 5,493,125</u>	<u>\$ 5,919,764</u>	<u>\$ 11,412,889</u>

The current level of unrestricted net assets for our governmental activities stands at \$2.7 million, or about 29% of expenditures. This is within the targeted range set by the County Board of Commissioners during its last budget process.

Net Assets of the governmental activities increased by \$1.3 million. Net Assets of the business-type activities increased by \$81 thousand.

The following table shows the activities of the County.

	<u>Governmental Activities</u> <u>2004</u>	<u>Business-Type Activities</u> <u>2004</u>	<u>Total</u> <u>2004</u>
Program Revenues			
Charges for Services	\$ 1,810,691	\$ 293,039	\$ 2,103,730
Operating Grants and Contributions	1,159,874	-	1,159,874
Capital Grants and Contributions	73,180	-	73,180
General Revenues			
Property Taxes	6,270,609	-	6,270,609
State-Shared Revenues	360,563	-	360,563
Unrestricted Investment Earnings	118,142	215,309	333,451
Transfers and Other Revenue	<u>930,233</u>	<u>(228,857)</u>	<u>701,376</u>
Total Revenues	<u>10,723,292</u>	<u>279,491</u>	<u>11,002,783</u>
Program Expenses			
Legislative	62,065	-	62,065
Judicial	1,147,344	-	1,147,344
General Government	1,999,438	-	1,999,438
Public Safety	2,661,293	-	2,661,293
Health and Welfare	2,552,635	-	2,552,635
Other Expenses	815,211	-	815,211
Interest Expense – Unallocated	139,493	-	139,493
Tax Collection	-	6,070	6,070
Parks & Recreation	-	148,000	148,000
Commissary	<u>-</u>	<u>44,848</u>	<u>44,848</u>
Total Expenses	<u>9,377,479</u>	<u>198,918</u>	<u>9,576,397</u>
Change in Net Assets	<u>\$ 1,345,813</u>	<u>\$ 80,573</u>	<u>\$ 1,426,386</u>

Governmental Activities

Revenue from property taxes increased 4.18 % from the previous year, gaining \$190,574, which was \$4,830 lower than the previous year's gain. This, however, is still an improvement from the trend of the five prior years where the average gain was \$180,669. The amount, however, was less than projected as the State decreased its actual distribution to Osceola County by \$154,000 or 45 % from what it forecasted as the State dealt with its budgetary problems. The State, at the end of 2004, then revamped its Revenue Sharing program which became effective at the start of 2005.

Health and Liability insurance costs were the major significant expense increases over the previous year. Health Insurance cost rose approximately 27.1 %. This was budgeted for and employees are contributing through premium cost sharing. Part of the additional costs arose from staff increases in public safety. A change in the self-funding of prescription drugs is decreasing the costs of prescriptions and providing some savings. Because of the calendar fiscal year, health insurance cost projections can only be estimated during the budget process for the next fiscal year budget cycle. Once the renewal information is received, adjustments are made. The opening for the employees to make health insurance choices comes after the budget forecasts near the start of the fiscal year so true costs are not solidified until then but are consistent throughout the entire year. Liability insurance costs have increased 13.4 % which was less than the previous adjustment of 16.4 %. This was a \$21,111 raise in premiums. The major funds contributed towards liability costs in 2004 but the General Fund absorbed more than 95% of it.

The standard wage rate increase was generally three percent for all categories of employees. Two of the three union contracts were settled, providing retroactive pay to public safety employees.

Major steps were taken in technological improvements within County operations. Collectively, they were probably the most significant changes that occurred in at least fifteen years. High speed internet and email capability was installed that included linkage between the Main Courthouse, Annex Building, Jail, and Emergency Medical Services. This replaced dial-up services that were only available in a few offices and provided thorough internal networking capability. This project was funded by a reduction in telephone operating costs and surplus General Fund money at the end of the year.

A new and upgraded system (both hardware and software) was installed in the Register of Deeds Office in order to provide modern service to its clients. Funds accumulated in the Register of Deeds Automation Fund and contributions from the General Fund from increased recording revenue to a level of \$ 95,314 paid for this system. Remaining costs of the project will occur in 2005.

Business-Type Activities

The County business-type activities are multi-faceted. They range from Tax Collection, County Parks, and Sheriff Commissary. The Tax Collection funds significantly supports the General fund. Charges for services and fees support the operations of the County Parks and the Sheriff Commissary. As with its other services, business-type activities are broad based and in many cases the predominant provider of that service for the citizen.

The County's Funds

Our analysis of the County's major funds begins on page 10 following the entity wide financial statements. The individual fund financial statements provide detail information about the most significant funds, not the County as a whole. The County Board of Commissioners creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The County's major funds for 2004 include the General Fund, which includes the Sheriff's Department Road Patrol millage, Revenue Sharing Reserve, EMS, Construction, and the Delinquent Tax Funds. Funds supported by special millages consist of the Commission on Aging Funds and Emergency Medical Services Fund.

The General Fund supports most of the County's governmental services. The costliest are the police, courts, and law enforcement functions. The Jail is augmented with the renting of inmate space (beds) to other governmental entities. The Delinquent Tax fund is supported by interest and fees from the collection of taxes. The Commission on Aging Funds is used to provide services to senior and disabled populations and to match grant dollars for local support.

General Fund Budgetary Highlights

The General Fund realized \$298,419 less in revenues than anticipated for the fiscal year. However, the General Fund operations also expended \$271,347 less than appropriated. Operating Transfers exceeded both anticipated revenue and expenditures amounts resulting in a positive net budget variance of \$118,909. In the General Fund \$459,645 of Fund Balance was anticipated to be used for the fiscal year budget; but only \$340,736 was used.

Circuit Court and County Clerk's revenues were up around \$5,700 each over the projected budget. Conversely, revenue from fines and fees in the District Court fell for the second year in a row from anticipated amounts, this time about \$25,000. Juvenile Court revenues were down around \$17,000, Sheriff's Department and Jail revenues were down around \$70,000 and Emergency Management revenues were down around \$38,000 below anticipated budgeted revenues. Elected Officials and Department Heads, with limited exceptions, continue to exhibit diligence across the board of keeping within budget parameters or identifying problems before they occur.

Over the course of the year the County Board amended the General Fund budget to reflect adjustments in revenues that developed in the year. The major adjustments were in Revenue Sharing, Public Defender, Treasurers Department, Jail operations, Emergency Management, and Insurance and Bonds. There were reductions in Child Care costs and increases in Friend of the Court, health and liability insurance, retirement, and social security costs. The Friend of the Court services were transferred from the General Fund to its own separate Fund in order to allow better analysis of revenues and expenditures and track specific program costs.

Other Funds

The Building Inspections Fund, Emergency Medical Services, Michigan Justice Training, Friend of the Court Fund and General Fund ended the year with a fund balance of ten percent or greater. The Board of Commissioners created a Budget Stabilization Fund in 2003 and \$50,000 was transferred to the fund to be utilized for future budgetary needs. The Vested Benefit Fund also increased its reserves. All of this provides for stability, future flexibility, and a mechanism for setting aside funds for services and equipment replacement.

After ten years of using a contract service for billing, the Emergency Medical Services department brought the service billing process back in-house. A significant investment of \$70,000 was made into the project, with funding coming from the General Fund. The Emergency Medical Services Fund was able to return \$30,000 of the loan to the General Fund, as well as end the year with a positive Fund balance. Additional savings were created within the department in staffing and operational costs as well as increased revenues from improved collection percentages. We consider this a significant accomplishment, as the General Fund has loaned the Emergency Medical Services Fund general operations dollars in years past to cover operational expenses, wages and benefits which was not required in 2004.

Capital Asset and Debt Administration

During the 2004 period, the County invested or acquired \$5,611,031 in capital assets that meet the dollar threshold of the reporting requirement. These purchases included the construction of the county road commission building, building improvements at the county park, six vehicles, one ambulance, as well as other equipment.

The County reduced its bond debt load by \$75,000 in principal payments, but increased it by \$3,750,000 for the road commission building in 2004 ending with a debt balance of \$4,950,000.

Economic Factors and Next Year's Budgets and Rates

This year produced a dichotomy of events. There was continued fund stabilization in all funds. There was investment in an equipment replacement fund in two of the smaller funds as was appropriated. There were monumental technological improvements in several areas that affect County operations. This all reflected a continued and more distinct upward trend in the County's financial posture. State Revenue Sharing further complicated future funding as the State's plan, where it provided provisions for funds that would be anticipated, left cash flow and potential public approval issues that will yet to be faced. We were pleased to end the current year with very healthy fund statuses in all funds and are still optimistic that the future will be proactive toward growth and progress.

Contacting the County's Management

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the County's finances and to show the County's accountability for the money it receives. If you have any questions about this report or need additional information, please contact the Coordinator's Office at 301 West Upton Avenue, Reed City, Michigan 49677.

Basic Financial Statements

County of Osceola, Michigan

Statement of Net Assets December 31 2004

	Primary Government			Component
	Governmental	Business-type	Totals	Units
	Activities	Activities		
ASSETS:				
Current:				
Cash & Investments - Unrestricted	\$ 4,185,546	\$ 4,965,855	\$ 9,151,401	\$ 508,386
Receivables:				
Accounts	186,940	-	186,940	684,589
Taxes	6,199,014	641,951	6,840,965	-
Interest	-	77,495	77,495	-
Prepaid Expenses	135,567	-	135,567	-
Due from Governmental Units	368,337	5,972	374,309	337
Inventories	-	-	-	177,546
Noncurrent Assets:				
Capital Assets (Net of Accumulated Depreciation)	5,380,969	230,062	5,611,031	8,365,468
TOTAL ASSETS	\$ 16,456,373	\$ 5,921,335	\$ 22,377,708	\$ 9,736,326
LIABILITIES:				
Current Liabilities:				
Accounts Payable	591,743	-	591,743	86,242
Accrued Liabilities	161,929	835	162,764	17,845
Accrued Interest Payable	9,484	-	9,484	-
Due to Governmental Units	-	736	736	-
Deferred Revenue	5,030,089	-	5,030,089	6,062
Capital Leases	28,775	-	28,775	-
Installment Loans	-	-	-	59,277
Bonds Payable	150,000	-	150,000	-
Noncurrent Liabilities:				
Vested Employee Benefits	154,318	-	154,318	304,891
Capital Leases	36,910	-	36,910	-
Installment Loans	-	-	-	224,084
Bonds Payable	4,800,000	-	4,800,000	-
TOTAL LIABILITIES	10,963,248	1,571	10,964,819	698,401
NET ASSETS:				
Invested in Capital Assets (net of related debt)	1,209,484	230,062	1,439,546	8,082,107
Restricted for County Road	-	-	-	934,110
Restricted for Construction	1,563,268	-	1,563,268	-
Unrestricted	2,720,373	5,689,702	8,410,075	21,708
TOTAL NET ASSETS	\$ 5,493,125	\$ 5,919,764	\$ 11,412,889	\$ 9,037,925

County of Osceola, Michigan

Statement of Activities Year Ended December 31, 2004

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
		Charges for Services	Operating Grants	Capital Grants and Contributions	Primary Government			Component Units
					Governmental Activities	Business-Type Activities	Total	
Primary Government:								
Governmental Activities:								
Legislative	62,065	-	-	-	(62,065)	-	(62,065)	-
Judicial	1,147,344	86,617	573,097	-	(487,630)	-	(487,630)	-
General Government	1,999,438	479,945	32,279	-	(1,487,214)	-	(1,487,214)	-
Public Safety	2,661,293	427,220	277,410	73,180	(1,883,483)	-	(1,883,483)	-
Health & Welfare	2,552,635	816,909	277,088	-	(1,458,638)	-	(1,458,638)	-
Other Expenses	815,211	-	-	-	(815,211)	-	(815,211)	-
Interest Expense - Unallocated	139,493	-	-	-	(139,493)	-	(139,493)	-
Total Governmental Activities	9,377,479	1,810,691	1,159,874	73,180	(6,333,734)	-	(6,333,734)	-
Business-type activities:								
Tax Collection	6,070	86,082	-	-	-	80,012	80,012	-
Parks & Recreation	148,000	161,386	-	-	-	13,386	13,386	-
Commissary	44,848	45,571	-	-	-	723	723	-
Total Business-type Activities	198,918	293,039	-	-	-	94,121	94,121	-
Total Primary Government	\$ 9,576,397	\$ 2,103,730	\$ 1,159,874	\$ 73,180	(6,333,734)	94,121	(6,239,613)	-
Component Units:								
Road Commission	3,661,635	55,558	3,674,529	499,348				567,800
Economic Development	36,783	-	8,401	-				(28,382)
Drain Revolving	7,274	-	-	-				(7,274)
Total Component Units	3,705,692	55,558	3,682,930	499,348				532,144
Total	\$ 13,282,089	\$ 2,159,288	\$ 4,842,804	\$ 572,528				
General Revenues and Transfers:								
Taxes					6,270,609	-	6,270,609	-
State Revenue Sharing					360,563	-	360,563	-
Federal, State, & Local - General					28,367	-	28,367	-
Investment Earnings (Loss)					118,142	215,309	333,451	13,820
Gain on Equipment Disposal					-	-	-	253,444
Other					724,645	-	724,645	2,572
Transfers - net					177,221	(228,857)	(51,636)	51,636
Total General Revenues and Transfers					7,679,547	(13,548)	7,665,999	321,472
Change in Net Assets					1,345,813	80,573	1,426,386	853,616
Net Assets - Beginning					4,147,312	5,839,191	9,986,503	8,184,309
Net Assets - Ending					\$ 5,493,125	\$ 5,919,764	\$ 11,412,889	\$ 9,037,925

County of Osceola, Michigan

Balance Sheet Governmental Funds December 31, 2004

	General	Revenue Sharing Reserve	EMS	Construction	Other Governmental Funds	Total Governmental Funds
ASSETS:						
Cash & Equivalents - Unrestricted	\$ 848,453	\$ -	\$ 41,189	\$ 1,904,391	\$ 1,391,513	\$ 4,185,546
Receivables:						
Accounts	154	-	186,346	-	440	186,940
Taxes	4,053,529	1,168,925	542,545	-	434,015	6,199,014
Prepaid Expenses	135,567	-	-	-	-	135,567
Due from Other Funds	222,174	-	-	-	-	222,174
Due from Governmental Units	197,030	-	-	-	171,307	368,337
TOTAL ASSETS	\$ 5,456,907	\$ 1,168,925	\$ 770,080	\$ 1,904,391	\$ 1,997,275	\$ 11,297,578
LIABILITIES:						
Due to Other Funds	\$ -	\$ 175,831	\$ 34,762	\$ -	\$ 11,581	\$ 222,174
Accounts Payable	131,828	-	7,230	341,123	111,562	591,743
Accrued Liabilities	109,161	-	24,469	-	28,299	161,929
Deferred Revenue	4,053,529	-	542,545	-	434,015	5,030,089
TOTAL LIABILITIES	4,294,518	175,831	609,006	341,123	585,457	6,005,935
FUND BALANCES:						
Unreserved:						
Undesignated	1,160,389	-	-	-	-	1,160,389
Designated	2,000	993,094	161,074	1,563,268	1,411,818	4,131,254
TOTAL FUND BALANCES	1,162,389	993,094	161,074	1,563,268	1,411,818	5,291,643
TOTAL LIABILITIES AND FUND BALANCES	\$ 5,456,907	\$ 1,168,925	\$ 770,080	\$ 1,904,391	\$ 1,997,275	
Reconciliation to amounts reported for governmental activities in the statement of net assets:						
Capital assets used by governmental activities are not financial resources and therefore are not reported in the funds.						5,380,969
Long term notes payable for governmental activities not due and payable in the current period.						(4,950,000)
Compensated absences liability not recognized in the funds.						(154,318)
Capital leases payable for governmental activities not due and payable in current period.						(65,685)
Accrued interest expense on long-term debt not recognized in the funds.						(9,484)
Net assets of governmental activities						\$ 5,493,125

County of Osceola, Michigan

Statement of Changes in Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds Year Ended December 31, 2004

	General	Revenue Sharing Reserve	EMS	Construction	Other Governmental Funds	Total Governmental Funds
REVENUES:						
Taxes	\$ 4,182,203	\$ 1,168,925	\$ 508,797	\$ -	\$ 410,684	\$ 6,270,609
Licenses & Permits	46,609	-	-	-	-	46,609
Federal Sources	303,089	-	-	-	538,498	841,587
State Sources	337,339	-	-	-	414,691	752,030
Local Sources	26,692	-	-	-	1,675	28,367
Charges for Services	885,909	-	666,912	-	257,870	1,810,691
Refunds & Reimbursements	380,480	-	-	-	76,183	456,663
Interest & Rentals	108,056	-	4,226	-	5,860	118,142
Other Revenue	114,484	-	2,256	-	122,095	238,835
TOTAL REVENUES	6,384,861	1,168,925	1,182,191	-	1,827,556	10,563,533
EXPENDITURES:						
Legislative	62,065	-	-	-	-	62,065
Judicial	814,004	-	-	-	321,335	1,135,339
General Government	1,804,136	-	-	-	203,150	2,007,286
Public Safety	2,530,674	-	-	-	75,859	2,606,533
Health & Welfare	53,961	-	1,136,414	-	1,240,696	2,431,071
Capital Outlay	-	-	-	2,125,495	188,937	2,314,432
Debt Service	-	-	69,303	-	135,706	205,009
Other Expenditures	823,277	-	-	61,237	-	884,514
TOTAL EXPENDITURES	6,088,117	-	1,205,717	2,186,732	2,165,683	11,646,249
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	296,744	1,168,925	(23,526)	(2,186,732)	(338,127)	(1,082,716)
OTHER FINANCING SOURCES (USES):						
Bond Proceeds	-	-	-	3,750,000	-	3,750,000
Operating Transfers In	228,788	-	78,290	-	1,130,897	1,437,975
Operating Transfers Out	(866,268)	(175,831)	(30,000)	-	(188,655)	(1,260,754)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(340,736)	993,094	24,764	1,563,268	604,115	2,844,505
FUND BALANCES, JANUARY 1	1,503,125	-	136,310	-	807,703	2,447,138
FUND BALANCES, DECEMBER 31	\$ 1,162,389	\$ 993,094	\$ 161,074	\$ 1,563,268	\$ 1,411,818	\$ 5,291,643

County of Osceola, Michigan

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended December 31, 2004

Net Changes in fund balances – total governmental funds \$ 2,844,505

The change in net assets reported for governmental activities in the
Statement of Activities is different because:

Governmental funds reported capital outlays as expenditures.
However, in the statement of activities, the cost of those assets
is capitalized and the cost of those assets is allocated over their
estimated useful lives and reported as depreciation expense.
This is the amount by which depreciation expense (\$356,405)
and loss on disposal of assets (\$17,460) exceeded capital outlays
of \$2,624,730. 2,250,865

Repayment of bond principal is an expenditure in the governmental
fund but reduces the liability in the statement of net assets. 75,000

Receipt of bond proceeds is another financing source in the governmental
funds, but is recognized as an increase in liability on the statement of
net assets. (3,750,000)

Receipt of capital lease and repayment of capital lease. (65,685)

Under the modified accrual basis of accounting used in governmental
funds, expenditures are not recognized for transactions that are not
normally paid with expendable available financial resources. In the
statement of activities, however, which is presented on the accrual
basis, expenses and liabilities are reported regardless of when financial
resources are available. In addition, interest on long-term debt is not
recognized under the modified accrual basis of accounting until due,
rather than as it accrues. This adjustment combines the following net
changes:

Compensated absences	612	
Accrued interest on bonds	<u>(9,484)</u>	<u>(8,872)</u>

Changes in net assets of governmental funds \$ 1,345,813

County of Osceola, Michigan

Statement of Net Assets Proprietary Funds December 31, 2004

	Enterprise Funds			
	Prior Delinquent Tax	2003 Delinquent Tax	Other Funds	Totals
ASSETS:				
Cash & Investments - Unrestricted	\$ 3,271,483	\$ 1,150,323	544,049	\$ 4,965,855
Receivables:				
Taxes	18,521	557,551	65,879	641,951
Interest	-	55,755	21,740	77,495
Due From Other Funds	1,828,003	-	-	1,828,003
Due From Others	-	4,166	1,806	5,972
Capital Assets - net	-	-	230,062	230,062
TOTAL ASSETS	\$ 5,118,007	\$ 1,767,795	\$ 863,536	\$ 7,749,338
LIABILITIES:				
Due to Others	736	-	-	736
Accrued Liabilities	-	-	835	835
Due to Other Funds	-	1,600,000	228,003	1,828,003
TOTAL LIABILITIES	736	1,600,000	228,838	1,829,574
NET ASSETS:				
Invested in Capital Assets (net of related debt)	-	-	230,062	230,062
Unrestricted	5,117,271	167,795	404,636	5,689,702
TOTAL NET ASSETS	\$ 5,117,271	\$ 167,795	\$ 634,698	\$ 5,919,764

County of Osceola, Michigan

Statement of Revenues, Expenses, and Changes in Net Assets - Proprietary Funds Year Ended December 31, 2004

	Enterprise Funds			
	Prior Delinquent Tax	2003 Delinquent Tax	Other Funds	Totals
OPERATING REVENUES:				
Charges for Services	\$ 6,847	\$ 52,965	\$ 233,227	\$ 293,039
Interest & Rentals	50,303	114,830	50,176	215,309
Total Operating Revenues	57,150	167,795	283,403	508,348
OPERATING EXPENSES:				
Other Expenses	6,070	-	192,848	198,918
Total Operating Expenses	6,070	-	192,848	198,918
OPERATING INCOME (LOSS)	51,080	167,795	90,555	309,430
NON-OPERATING REVENUES (EXPENSES):				
Transfers In	286,863	-	10,000	296,863
Transfers Out	(263,710)	-	(262,010)	(525,720)
Total Non-Operating Expenses	23,153	-	(252,010)	(228,857)
CHANGE IN NET ASSETS	74,233	167,795	(161,455)	80,573
NET ASSETS, JANUARY 1	5,043,038	-	796,153	5,839,191
NET ASSETS, December 31	<u>\$ 5,117,271</u>	<u>\$ 167,795</u>	<u>\$ 634,698</u>	<u>\$ 5,919,764</u>

County of Osceola, Michigan

Statement of Cash Flows Proprietary Funds Year Ended December 31, 2004

	Enterprise Funds			
	Prior Delinquent Tax	2003 Delinquent Tax	Other Funds	Totals
CASH FLOWS FROM OPERATING ACTIVITIES:				
Receipts from Customers	\$ 127,398	\$ 1,712,040	\$ 821,578	\$ 2,661,016
Payments to Suppliers	(6,070)	(561,717)	(1,777,399)	(2,345,186)
Net Cash Provided (Used) by Operating Activities	121,328	1,150,323	(955,821)	315,830
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES:				
Net Operating Transfers In (Out)	23,153	-	(252,010)	(228,857)
Net Cash Provided (Used) by Non-Capital and Related Financing Activities	23,153	-	(252,010)	(228,857)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Purchase of Building Improvements	-	-	(48,986)	(48,986)
Net Cash Provided (Used) by Capital and Related Financing Activities	-	-	(48,986)	(48,986)
Net Increase (Decrease) in Cash and Cash Equivalents	144,481	1,150,323	(1,256,817)	37,987
Balances - Beginning of the Year	3,127,002	-	1,800,866	4,927,868
Balances - End of the Year	<u>\$ 3,271,483</u>	<u>\$ 1,150,323</u>	<u>\$ 544,049</u>	<u>\$ 4,965,855</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Operating Income (Loss)	\$ 51,080	\$ 167,795	\$ 90,555	\$ 309,430
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Depreciation	-	-	16,112	16,112
Change in Assets and Liabilities:				
Taxes Receivable	(1,749)	(557,551)	558,134	(1,166)
Interest Receivable	-	(55,755)	52,959	(2,796)
Due from Other Funds	71,997	-	-	71,997
Due from Others	-	(4,166)	(1,806)	(5,972)
Increase (Decrease) in Liabilities:				
Due to Other Funds	-	1,600,000	(1,671,997)	(71,997)
Other Liabilities	-	-	222	222
Net Cash Provided by Operating Activities	<u>\$ 121,328</u>	<u>\$ 1,150,323</u>	<u>\$ (955,821)</u>	<u>\$ 315,830</u>

County of Osceola, Michigan

Statement of Fiduciary Net Assets Fiduciary Funds December 31, 2004

	<u>Agency Funds</u>
ASSETS:	
Cash & Cash Equivalents:	
Unrestricted	<u>\$ 1,303,196</u>
 TOTAL ASSETS	 <u><u>\$ 1,303,196</u></u>
 LIABILITIES:	
Due to Others	\$ 702,030
Accrued Liabilities	240
Other Liabilities	<u>600,926</u>
 TOTAL LIABILITIES	 <u><u>\$ 1,303,196</u></u>

Component Units

County of Osceola, Michigan

Statement of Net Assets Component Units December 31, 2004

	Road Commission	Economic Development Corporation	Revolving Drain	Totals
ASSETS:				
Current:				
Cash & Investments - Unrestricted	\$ 477,846	\$ 19,100	\$ 11,440	\$ 508,386
Accounts Receivable	684,589	-	-	684,589
Due from Governmental Units	-	-	337	337
Inventories	177,546	-	-	177,546
Prepaid Expenses	-	-	-	-
Other Assets	-	-	-	-
Noncurrent Assets:				
Capital Assets (net)	8,365,468	-	-	8,365,468
TOTAL ASSETS	\$ 9,705,449	\$ 19,100	\$ 11,777	\$ 9,736,326
LIABILITIES:				
Current Liabilities:				
Accounts Payable	78,968	-	7,274	86,242
Accrued Liabilities	17,845	-	-	17,845
Deferred Revenue	4,167	-	1,895	6,062
Advances from State	-	-	-	-
Installment Loans	59,277	-	-	59,277
Total Current Liabilities	160,257	-	9,169	169,426
Noncurrent Liabilities:				
Installment Loans	224,084	-	-	224,084
Vested Employee Benefits	304,891	-	-	304,891
Total Noncurrent Liabilities	528,975	-	-	528,975
TOTAL LIABILITIES	689,232	-	9,169	698,401
NET ASSETS:				
Invested in Capital Assets, net of related debt	8,082,107	-	-	8,082,107
Restricted for County Road	934,110	-	-	934,110
Unrestricted	-	19,100	2,608	21,708
TOTAL NET ASSETS	\$ 9,016,217	\$ 19,100	\$ 2,608	\$ 9,037,925

County of Osceola, Michigan

Statement of Activities Component Units Year Ended December 31, 2004

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Road Commission	Economic Development Corporation	Drain Revolving	
Road Commission:								
Public Works	\$ 3,661,635	\$ 55,558	\$ 3,674,529	\$ 499,348	\$ 567,800	\$ -	\$ -	\$ 567,800
Economic Development Corporation								
Economic Development	36,783	-	8,401	-	-	(28,382)	-	(28,382)
Drain Revolving								
Public Works	7,274	-	-	-	-	-	(7,274)	(7,274)
Total Component Units	<u>\$ 3,705,692</u>	<u>\$ 55,558</u>	<u>\$ 3,682,930</u>	<u>\$ 499,348</u>	<u>567,800</u>	<u>(28,382)</u>	<u>(7,274)</u>	<u>532,144</u>
General Revenues:								
County Appropriations					-	44,326	7,310	51,636
Investment Earnings					13,820	-	-	13,820
Gain on Investment Disposal					253,444	-	-	253,444
Other					-	-	2,572	2,572
Total General Revenues and Transfers					<u>267,264</u>	<u>44,326</u>	<u>9,882</u>	<u>321,472</u>
Change in Net Assets					835,064	15,944	2,608	853,616
Net Assets - Beginning					8,181,153	3,156	-	8,184,309
Net Assets - Ending					<u>\$ 9,016,217</u>	<u>\$ 19,100</u>	<u>\$ 2,608</u>	<u>\$ 9,037,925</u>

See accompanying notes to financial statements.

Notes to the Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the County of Osceola, Michigan, conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental entities. The following is a summary of the significant accounting policies used by the County:

A – Reporting Entity:**Financial Reporting Entity**

The County of Osceola, Michigan, is a public corporation created under the Constitution and Statutes of the State of Michigan and covers an area of approximately 576 square miles with the County Seat located in Reed City. The County operates under an elected Board of Commissioners (seven members) and provides services to its 23,197 residents (per 2000 census) in many areas, including law enforcement, administration of justice, community enrichment and development, public works, health and welfare, and recreation and cultural activities.

Component Units:

In conformity with U.S. generally accepted accounting principles, the financial statements of component units have been included in the financial reporting entity either as blended component units or as discretely presented component units.

Blended Component Units

County of Osceola Building Authority – The Authority is an entity legally separate from the County. The Authority is governed by a board, appointed by the Commission and is reported as if it were part of the County's operations because its primary purpose is the procurement and management of debt financing for the County.

Discretely Presented Component Units

The component units column in the government-wide financial statements include the financial data of the other component units of the County. The following is a summary of the component units:

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Osceola County Road Commission - The County Road Commission is considered part of the County reporting entity for financial reporting purposes. The Road Commission is governed by a three member board elected by electorate of Osceola County. The Road Commission may not issue debt or levy taxes without the approval of the County Board of Commissioners. However, this component unit of Osceola County has been audited and reported separately. Complete financial statements of the individual component unit can be obtained from the following:

Osceola County Road Commission
800 S. Chestnut
Reed City, MI 49677

County of Osceola Economic Development Corporation – The Corporation is a legally separate non-profit corporation whose primary purpose is to promote economic development in the County of Osceola. The board of the Economic Development Corporation is appointed by the Board of Commissioners. The Corporation's annual budget is subject to the approval of the Board of Commissioners and is financially accountable to the County.

Drain Revolving – Each drainage district is a separate legal entity with the power to contract, sue, be sued, hold, manage and dispose of real and personal property etc. The full faith and credit of the County may be given for the debt of the drainage district.

Jointly Governed Organizations

Central Michigan Community Mental Health Authority – The County participates jointly in the operation of this Authority with four other area counties. All financial operations of the Authority are recorded in Isabella County. The County appropriated \$105,086 to the Authority for the year ended December 31, 2004.

Meceola Consolidated Central Dispatch Authority – Mecosta and Osceola Counties participate jointly in the operation of the Meceola Consolidated Central Dispatch Authority. Osceola County makes no appropriations to this Authority.

Central Michigan District Health Department – The County participates jointly in the operation of this Health Department with ten other area counties. All financial operations of the Health Department are recorded in Isabella County. The County appropriated \$153,232 to the Health Department of the year ended December 31, 2004.

Mecosta/Osceola County Area Transit Authority – The Transit Authority provides public transportation to the general public in Mecosta and Osceola counties. MOCAT's a blended component unit of Mecosta County.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**B – Government-Wide and Fund Financial Statements:**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment, are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C – Measurement Focus, Basis of Accounting and Financial Statement Presentation:

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Taxes Receivable – Current or Property Taxes**

The County of Osceola property tax is levied on each December 1st on the taxable valuation of property (as defined by State statutes) located in the County of Osceola as of the preceding December 31st.

The County of Osceola 2004 ad valorem tax is levied and collectible on December 1, 2004, it is the County of Osceola's policy to recognize revenue from the current tax levy in the current year when the proceeds of this levy are budgeted and made "available" for the financing of operations. "Available" means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days).

The 2004 taxable valuation of the County of Osceola totaled \$546,754,523, on which ad valorem taxes levied consisted of 6.4138 mills for the County operating, .7938 mills for Commission on Aging, 1.0 mill for Road Patrol, .9923 mills for EMS, raising \$3,506,774, \$434,014, \$546,755, \$542,545, respectively. These amounts are recognized in the respective General and Special Revenue financial statements as tax revenue.

All other revenue items are considered to be available only when cash is received by the government.

The County reports the following major governmental funds:

General Fund

This is the County's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Revenue Sharing Fund

This Fund accounts for restricted funds that are limited to amounts previously reported as state revenue sharing distributed annually, which can be used to fund governmental operations.

Emergency Medical Services Fund

This Fund accounts for emergency medical services provided from charges for services, grants, Medicare and Medicaid reimbursements, and insurance reimbursements.

Construction Fund

This Fund accounts for the construction and renovation of a new county road commission building.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The County reports the following major proprietary funds:

2003 Delinquent Tax Fund

This fund accounts for the collection of delinquent taxes.

Prior Delinquent Tax Fund

This fund accounts for the collection of prior year delinquent taxes.

Additionally, the County reports the following fund types:

Agency Funds

Agency Funds are used to account for assets held by the County as an agent for individuals, private organizations, other governments, and/or other funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Private-sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected not to follow private-sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's tax collection function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relate to charges to customers for tax collections. Operating expenses for proprietary funds include the cost of sales and services, and administrative expenses. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**D - Assets, Liabilities, and Net Assets or Equity:**

Bank Deposits and Investments – Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income from all funds and is allocated to each fund based on average cash balance. Deposits are recorded at cost.

Receivables and Payables – In general, outstanding balances between funds are reported as “due to/from other funds.” Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as “advances to/from other funds. Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “internal balances.”

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each December 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

Inventories and Prepaid Items – All inventories, including the cost of supplies, are expensed when purchased. Certain insurance premiums and other expenditures are recorded as prepaid assets in the fund level and Government-wide financial statements.

Capital Assets – Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Buildings	40 to 60 years
Building Improvements	15 to 30 years
Roads	10 to 30 years
Vehicles	3 to 5 years
Office Equipment	5 to 7 years
Computer Equipment	3 to 7 years
Infrastructure – Roads	8 to 20 years
Infrastructure – Bridges	12 to 30 years

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Vested Benefits Payable – County General Employees - The county's employment policies provide for vacation benefits to be earned in varying amounts depending on the employee's years of service.

The annual vacation benefits earned by each employee during the current year are credited to the employee at year end.

Employees' vacation and sick leave benefits are earned at varying amounts depending on various union and non-union personnel policies. Employees may accumulate vacation leave until termination of employment, at which time they will be compensated in full for the unused portion. All employees may accumulate up to 150 days of sick leave. The contract reduces the Emergency Medical Service's employee's maximum accumulation to 6 days. However, employees are compensated for 50 percent of their total accumulation at termination.

Long-Term Obligations – In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Deferred Revenues – Deferred revenues are those where asset recognition criteria have been met, but for which revenue recognition criteria have not.

Grants and Other Intergovernmental Revenues – Federal grants and assistance awards for all governmental type funds are recorded as intergovernmental revenue in accordance with the terms of the representative grants.

Interfund Transfers – During the course of normal operations, the County has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as operating transfers. The classification of amounts recorded as subsidies, advances, or equity contributions is determined by County management.

Use of Estimates – The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the reporting period. Actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information – Annual budgets are adopted on a basis consistent with U.S. generally accepted accounting principles.

Budgets and Budgetary Control – The County follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. Each December, after receiving input from the individual departments, the Board of Commissioners prepares a proposed operating budget for the fiscal period commencing January 1st and lapses on December 31st. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. Prior to January 1st, the budget is legally enacted through a resolution passed by the Board of Commissioners.
- d. Budgetary control is exercised at the departmental level of the General Fund. Any revisions that alter the total expenditures of any department or fund (i.e., budget amendments) require approval by the Board of Commissioners. Such amendments are made in accordance with the procedures prescribed under Public Act 621 of 1978.
- e. The budget and approved appropriations lapse at the end of the fiscal year.
- f. The County does not record encumbrances in the accounting records during the year as normal practice and, therefore, no outstanding encumbrances exist at year end.

Budgeted amounts are as originally adopted or amended by the Board of Commissioners during the year. Individual amendments were not material in relation to the original appropriations which were amended. The modified accrual basis of accounting is used for budgetary purposes.

The General Fund revenue budget was adopted on the basis of activities or programs financed by the General Fund.

Michigan Public Act 621 of 1978 requires that budgets be adopted for Governmental Funds. U.S. generally accepted accounting principles require that the financial statements present budgetary comparisons for the Governmental Fund Types for which budgets were legally adopted. The original budget adopted for the General fund was modified throughout the year through various budget amendments.

The budget document presents information by fund, function, department and line items. The legal level of budgetary control adopted by the governing body is the department level.

NOTE 3 - DEPOSITS AND INVESTMENTS

At year-end, the County's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total Primary Government</u>	<u>Fiduciary Funds</u>	<u>Component Units</u>
Cash, Investments and Equivalents - Unrestricted	\$ 4,185,546	\$ 4,965,855	\$ 9,151,401	\$ 1,303,196	\$ 508,386
Total	<u>\$ 4,185,546</u>	<u>\$ 4,965,855</u>	<u>\$ 9,151,401</u>	<u>\$ 1,303,196</u>	<u>\$ 508,386</u>

	<u>Primary Government</u>	<u>Fiduciary Funds</u>	<u>Component Units</u>
Investments	\$ 3,394,549	\$ -	\$ 467,746
Bank Deposits (checking and savings accounts, certificates of deposit)	5,754,012	1,303,196	40,440
Petty Cash and Cash on Hand	<u>2,840</u>	<u>-</u>	<u>200</u>
Total	<u>\$ 9,151,401</u>	<u>\$ 1,303,196</u>	<u>\$ 508,386</u>

Statutory Authority:

Michigan Law (Public Act 20 of 1943 as amended) authorizes the County to deposit and invest in one or more of the following:

- Bond, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution that is eligible to be a depository of funds belonging to the State under a law or rule of this State or the United States.
- Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures not more than 270 days after the date of purchase.
- Repurchase agreements consisting of instruments listed in a.
- Banker's acceptance of United States banks.

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

- f. Obligations of this State or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the investment company act of 1940, Title I of Chapter 686, 54 Stat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- h. Obligation described in a. through g. if purchased through an interlocal agreement under the urban cooperations act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.
- i. Investment pools organized under the surplus funds investment pool act, 1982 PA 367, 129.111 to 129.118.
- j. The investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

The County's deposits and investment policy are in accordance with statutory authority.

At year-end, the carrying amount of the County's primary and fiduciary deposits was \$7,057,208 and the bank balance was \$7,003,031. Of the bank balance, \$367,431, approximately 5%, was covered by federal depository insurance according to FDIC regulations.

These deposits are in various financial institutions in varying amounts. All accounts are in the name of the County and specific funds. They are recorded in County records at cost. Interest is recorded when the deposits mature or is credited to the applicable account.

Investments are categorized into these three categories of credit risk:

- 1. Insured or registered, or securities held by the County or its agent in the government's name;
- 2. Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the government's name; and
- 3. Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the County's name.

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

At year-end, the government's investment balances were categorized as follow:

	Category			Carrying Value	Fair Value
	1	2	3		
Primary Government:					
Treasury Bills and					
Government Securities	\$ -	\$ 1,341,627	\$ -	\$ 1,341,627	\$ 1,341,627
Mutual Funds	-	<u>2,052,922</u>	-	<u>2,052,922</u>	<u>2,052,922</u>
Total Primary Government	<u>\$ -</u>	<u>\$ 3,394,549</u>	<u>\$ -</u>	<u>\$ 3,394,549</u>	<u>\$ 3,394,549</u>

The GASB Statement No. 3 risk disclosures for the Road Commission's investments are as follows:

Investment Type	Carrying Amount	Fair Value
Nonrisk-Categorized		
Public Funds Money Market		
Investment Account	\$ 258,561	\$ 258,941
Treasury Portfolio Class B	<u>217,714</u>	<u>208,805</u>
Total Investments	<u>\$ 476,275</u>	<u>\$ 467,746</u>

The Road Commission has investments purchased through a pooled investment account at a financial institution. The nature of the pooled investments does not allow for risk-categorization in accordance with GASB Statement No. 3. The difference between the carrying amount and the market value is related to the amount of outstanding checks at December 31, 2004.

NOTE 4 - RECEIVABLES

Receivables as of year-end for the government's individual major and nonmajor funds, are as follows:

	General Fund	Revenue Sharing Reserve	EMS	Non-Major and Other Funds	Total
Receivables:					
Accounts	\$ 154	\$ -	\$ 186,346	\$ 440	\$ 186,940
Taxes	4,053,529	1,168,925	542,545	1,075,966	6,840,965
Interest	-	-	-	77,495	77,495
Due From Others	<u>197,030</u>	<u>-</u>	<u>-</u>	<u>177,279</u>	<u>374,309</u>
Net Receivables	<u>\$ 4,250,713</u>	<u>\$ 1,168,925</u>	<u>\$ 728,891</u>	<u>\$ 1,331,180</u>	<u>\$ 7,479,709</u>

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the primary government for the current year was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 210,510	\$ -	\$ -	\$ 210,510
Construction in Progress	<u>-</u>	<u>2,314,432</u>	<u>-</u>	<u>2,314,432</u>
Subtotal	<u>210,510</u>	<u>2,314,432</u>	<u>-</u>	<u>2,524,942</u>
Capital assets being depreciated:				
Buildings	5,688,404	-	-	5,688,404
Machinery and equipment	<u>2,549,337</u>	<u>310,298</u>	<u>(147,859)</u>	<u>2,711,776</u>
Subtotal	<u>8,237,741</u>	<u>310,298</u>	<u>(147,859)</u>	<u>8,400,180</u>
Governmental Activities:				
Less accumulated depreciation	(5,318,147)	(356,405)	130,399	(5,544,153)
Net Capital Assets Being Depreciated	<u>2,919,594</u>	<u>(46,107)</u>	<u>(17,460)</u>	<u>2,856,027</u>
Governmental Activity Capital Total				
Capital Assets - Net of Depreciation	<u>\$ 3,130,104</u>	<u>\$ 2,268,325</u>	<u>\$ (17,460)</u>	<u>\$ 5,380,969</u>
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 37,550	\$ -	\$ -	\$ 37,550
Subtotal	<u>37,550</u>	<u>-</u>	<u>-</u>	<u>37,550</u>
Capital assets being depreciated:				
Buildings and improvements	407,319	48,986	-	456,305
Equipment	<u>132,396</u>	<u>-</u>	<u>-</u>	<u>132,396</u>
Subtotal	539,715	48,986	-	588,701
Less accumulated depreciation	<u>(380,077)</u>	<u>(16,112)</u>	<u>-</u>	<u>(396,189)</u>
Net Capital Assets Being Depreciated	<u>159,638</u>	<u>32,874</u>	<u>-</u>	<u>192,512</u>
Business-type Activities Capital Assets, Net of Depreciation	<u>\$ 197,188</u>	<u>\$ 32,874</u>	<u>\$ -</u>	<u>\$ 230,062</u>

NOTE 5 - CAPITAL ASSETS (Continued)

Depreciation expense was charged to programs of the primary government as follows:

Governmental Activities:

Judicial	\$ 12,005
General Government	153,165
Public Safety	113,192
Health and Welfare	<u>78,043</u>

Total Governmental Activities \$ 356,405

A summary of changes in the Road Commission's capital assets are as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
<i>Capital assets not being depreciated:</i>				
Land and Improvements	\$ 65,662	\$ -	\$ -	\$ 65,662
Infrastructure Land Improvements	<u>3,971,296</u>	<u>304,196</u>	<u>-</u>	<u>4,275,492</u>
Subtotal	<u>4,036,958</u>	<u>304,196</u>	<u>-</u>	<u>4,341,154</u>
<i>Capital assets being depreciated:</i>				
Buildings	462,993	172,126	-	635,119
Road Equipment	4,715,892	740,025	520,081	4,935,836
Shop Equipment	84,317	1,518	-	85,835
Office Equipment	30,166	449	-	30,615
Engineer's Equipment	32,294	2,722	-	35,016
Depletable Assets	196,825	-	-	196,825
Infrastructure – Bridges	361,821	35,734	-	397,555
Infrastructure – Roads	<u>1,482,745</u>	<u>569,483</u>	<u>-</u>	<u>2,052,228</u>
Subtotal	<u>7,367,053</u>	<u>1,522,057</u>	<u>520,081</u>	<u>8,369,029</u>
Less accumulated depreciation:				
Building	340,650	11,512	-	352,162
Road Equipment	3,559,922	454,149	439,585	3,574,486
Shop Equipment	70,927	2,585	-	73,512
Office Equipment	24,031	1,432	-	25,463
Engineer's Equipment	10,426	4,220	-	14,646
Depletable Assets	192,083	3,797	-	195,880
Infrastructure – Bridges	-	12,061	-	12,061
Infrastructure – Roads	<u>-</u>	<u>96,505</u>	<u>-</u>	<u>96,505</u>
Subtotal	<u>4,198,039</u>	<u>586,261</u>	<u>439,585</u>	<u>4,344,715</u>
Net Capital Assets Being Depreciated	<u>3,169,014</u>	<u>935,796</u>	<u>80,496</u>	<u>4,024,314</u>
Total Net Capital Assets	<u>\$ 7,205,972</u>	<u>\$ 1,239,992</u>	<u>\$ 80,496</u>	<u>\$ 8,365,468</u>

NOTE 5 - CAPITAL ASSETS (Continued)

Depreciation and depletion expense was charged to the following activities:

Net Equipment Expense	
Direct Equipment	\$ 447,335
Indirect Equipment	
Shop Building	11,512
Shop Equipment	2,585
Net Administrative Expenses	
Engineering	4,220
Office Equipment	1,432
Office Vehicles	6,814
Depletion Expense	<u>3,797</u>
Infrastructure Depreciation	<u>108,566</u>
Total Depreciation Expense	<u>\$ 586,261</u>

NOTE 6 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The County of Osceola, Michigan reports interfund balances between many of its funds. Some of the balances are considered immaterial and are aggregated into a single column or row. The total of all balances agrees with the sum of interfund balances presented in the statements of net assets/balance sheet for governmental funds, proprietary funds, and fiduciary funds. Interfund transactions resulting in interfund Receivables and Payable are as follows:

	DUE TO OTHER FUNDS				
	Revenue Sharing Reserve	EMS	2003 Delinquent Tax	Other Funds	Totals
General Fund	\$ 175,831	\$ 34,762	\$ -	\$ 11,581	\$ 222,174
Prior Delinquent Tax	-	-	1,600,000	228,003	1,828,003
Total	<u>\$ 175,831</u>	<u>\$ 34,762</u>	<u>\$ 1,600,000</u>	<u>\$ 239,584</u>	<u>\$ 2,050,177</u>

NOTE 6 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS (Continued)

Interfund Transfers

	TRANSFERS (OUT)					
	General Fund	Revenue Sharing Reserves	EMS	Prior Delinquent Tax	Other Funds	Total
General Fund	\$ -	\$ 175,831	\$ -	\$ -	\$ 52,957	\$ 228,788
EMS	78,290	-	-	-	-	78,290
All Other	787,978	-	30,000	263,710	59,209	1,140,897
Prior Delinquent Tax	-	-	-	-	286,863	286,863
Component Units	-	-	-	-	51,636	51,636
Total	<u>\$ 866,268</u>	<u>\$ 175,831</u>	<u>\$ 30,000</u>	<u>\$ 263,710</u>	<u>\$ 450,665</u>	<u>\$ 1,786,474</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) moves receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 7 - LONG-TERM DEBT

The government issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. County contractual agreements and installment purchase agreements are also general obligations of the government.

Bond and contractual obligation activity can be summarized as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Governmental Activities:					
General Obligation Bonds					
\$1,600,000 Building Authority Bonds, Series 1998, due in annual installments increasing from \$50,000 to \$125,000 through November 1, 2017, plus interest at 5.20 % payable semi-annually.	\$ 1,275,000	\$ -	\$ 75,000	\$ 1,200,000	\$ 75,000
 \$3,750,000 Building Authority Bonds, Series 2004, due in annual installments increasing from \$75,000 to \$225,000 through April 1, 2034, plus interest at 3% to 4.875 payable semi-annually.	<u>-</u>	<u>3,750,000</u>	<u>-</u>	<u>3,750,000</u>	<u>75,000</u>
Total Governmental Activities	<u>\$ 1,275,000</u>	<u>\$ 3,750,000</u>	<u>\$ 75,000</u>	<u>\$ 4,950,000</u>	<u>\$ 150,000</u>

NOTE 7 - LONG-TERM DEBT (Continued)

Annual debt service requirements to maturity for the above obligations are as follows:

<u>Year End December 31</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2005	\$ 150,000	\$ 235,696
2006	150,000	213,369
2007	150,000	207,650
2008	150,000	201,931
2009	150,000	196,212
2010-2014	875,000	882,463
2015-2019	850,000	674,781
2020-2024	625,000	519,938
2025-2029	825,000	353,513
2030-2034	<u>1,025,000</u>	<u>131,016</u>
Total	<u>\$ 4,950,000</u>	<u>\$ 3,616,569</u>

A summary of vested benefits payable at December 31, 2004 is as follows:

Vacation	\$ 106,468
Sick Leave	<u>47,850</u>
TOTALS	<u>\$ 154,318</u>

The long-term debt of the Road Commission is summarized as follows:

	<u>Balance 01/01/04</u>	<u>Additions (Reductions)</u>	<u>Balance 12/31/04</u>	<u>Due Within One Year</u>
Caterpillar Track-Type Tractor, Model D4GXL, \$67,895, Capital Lease Dated July 1, 2003	\$ 58,714	\$ (6,833)	\$ 51,881	\$ 7,106
Caterpillar Excavator Model 312CL \$92,095 Capital Lease Dated July 15, 2003	89,632	(10,073)	79,559	10,441
Two 2003 International Trucks, \$212,000 Promissory Note Dated May 16, 2003, maturing serially through 2008 with quarterly installments of \$11,558 and an interest rate of 3.3%	192,302	(40,381)	151,921	41,730
Vested Employee Benefits Vacation and Sick Leave	<u>278,327</u>	<u>26,564</u>	<u>304,891</u>	<u>-</u>
Total	<u>\$ 618,975</u>	<u>\$ (30,723)</u>	<u>\$ 588,252</u>	<u>\$ 59,277</u>

NOTE 7 - LONG-TERM DEBT (Continued)

A Caterpillar Track-Type Tractor Model D4GXL was purchased in July 2003 under a lease purchase agreement through Caterpillar Financial Services Corporation. The original purchase price was \$67,895, with 5 annual payments of \$9,181 and a \$30,888 balloon payment due in July 2008 at an implied interest rate of 3.99%.

<u>Loan Amount</u>	<u>Interest Rate</u>	<u>Maturity Year</u>	<u>Outstanding 12/31/2004</u>	<u>Payable if Held to Maturity</u>
\$ 67,895	3.99%	2005	\$ 7,106	\$ 2,075
		2006	7,390	1,791
		2007	7,685	1,495
		2008	<u>29,700</u>	<u>1,188</u>
		Total	<u>\$ 51,881</u>	<u>\$ 6,549</u>

A Caterpillar Excavator Model 312CL was purchased in July 2003 under a lease purchase agreement through Caterpillar Financial Services Corporation. The original purchase was \$92,095, with 20 quarterly payments of \$3,291 and a \$41,691 balloon payment due in July 2008 at an implied interest rate of 3.59%

<u>Loan Amount</u>	<u>Interest Rate</u>	<u>Maturity Year</u>	<u>Outstanding 12/31/2004</u>	<u>Payable if Held to Maturity</u>
\$ 92,095	3.59%	2005	\$ 10,441	\$ 2,724
		2006	10,822	2,343
		2007	11,217	1,948
		2008	<u>47,079</u>	<u>1,193</u>
		Total	<u>\$ 79,559</u>	<u>\$ 8,208</u>

Two 2003 International Trucks were purchased in May 2003 under a promissory note through Huntington Bank. The original purchase price was \$21,000, with 20 quarterly payments of \$11,558 at an interest rate of 3.3%.

<u>Loan Amount</u>	<u>Interest Rate</u>	<u>Maturity Year</u>	<u>Outstanding 12/31/2004</u>	<u>Held to Maturity</u>
\$ 212,000	3.3%	2005	\$ 41,730	\$ 4,501
		2006	43,124	3,106
		2007	44,565	1,665
		2008	<u>22,502</u>	<u>277</u>
		Total	<u>\$ 151,921</u>	<u>\$ 9,549</u>

NOTE 7 - LONG-TERM DEBT (Continued)

Vested Employee Benefits

Vacation is earned in varying amounts depending on the number of years of services of an employee and is made available to the employee at the beginning of each year, not to exceed a total accumulation of 44 days for union employees, 59 days for administrative and nonunion supervisory employees. Vacation is payable at 100% to employees when they terminate employment.

Sick leave is accumulated at the rate of 1 day for each month of services, not to exceed a total accumulation of 125 days for all employees. Sick pay is payable at the following percentage when employees leave prior to retirement.

10 years of service	60 percent
5-10 years of service	40 percent
0-5 years of service	20 percent

Sick leave is payable at 100% at retirement or death.

At December 31, 2004, the total vested vacation and sick leave benefits were \$73,465 and \$231,426, respectively.

NOTE 8 - RISK MANAGEMENT

Risk Management – The government is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The government was unable to obtain general liability insurance at a cost it considered to be economically justifiable. The County joined together with other governments and created a public entity risk pool currently operating as a common risk management and insurance program. The government pays an annual premium to the pool for its general insurance coverage. The agreement provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$75,000 for each insured event.

The government continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The government is unable to provide an estimate of the amounts of additional assessments.

NOTE 9 - CONTINGENT LIABILITIES

The County has received significant financial assistance from state and federal agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and is subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the County. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the County at December 31, 2004.

During 2004 the Building Authority issued \$3,750,000 of bonds to construct buildings for the Road Commission. At year-end \$2,156,427 was spent on the project with another \$1,593,573 to be spent in 2005.

NOTE 10 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMSDescription of Plan and Plan Assets

The County is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS). The system provides the following provisions: normal retirement, deferred retirement and service retirement to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplies by the sum of 2.0 percent times the final compensation (FAC). The most recent period of which actuarial data was available was for year ended December 31, 2003.

MERS was organized pursuant to Section 12A of Act #156, Public Acts of 1851 (MSA 5.333 (a); MCLA 46.12 (a), as amended, State of Michigan. MERS is regulated under Act No. 427 of Public Acts of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 447 North Canal Street, Lansing, Michigan 48917-9755.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the County's competitive bargaining unit and personnel policy, which require employees to contribute to the plan. The County is required to contribute at an actuarially determined rate.

NOTE 10 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

The contribution rate as a percentage of payroll at December 31, 2003 is as follows:

Courthouse Employees	10.31%
Sheriff Department	9.85%
Elected Officials	10.31%
Commissioner	N/A
Non-Union/Non-Elected	10.31%
Paramedics	8.96%
Command Officers	9.74%

Annual Pension Cost

During the year ended December 31, 2004, the County's contributions totaling \$357,423 were made in accordance with contribution requirement determined by an actuarial valuation of the plan as of December 31, 2002. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8 percent and annual salary increases of 4.5 percent based on an age-related scale to reflect merit, longevity, and promotional salary increases. The unfunded actuarial liability is amortized as a level percent of payroll on a closed basis. The remaining amortization period is 30 years.

Three year trend information as of December 31, follows:

	2001	2002	2003
Actuarial Value of Assets	\$ 5,997,625	\$ 6,254,156	\$ 6,835,402
Actuarial Accrued Liability	6,619,416	7,391,412	8,056,141
Unfunded AAL	621,791	1,137,256	1,220,739
Funded Ratio	91%	85%	85%
Covered Payroll	3,100,247	3,328,023	3,387,364
UAAL as a Percentage of Covered Payroll	20%	34%	36%

NOTE 10 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)**ROAD COMMISSION**Description of Plan and Plan Assets

The Osceola County Road Commission is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS). The system provides the following provisions: normal retirement, deferred retirement and service retirement allowance, disability retirement allowance, nonduty-connected to death, and post-retirement adjustments to plan members and their beneficiaries. The service requirement for general and administration is computed using credited service at the time of termination of membership multiplied by the sum of 2.25 percent times the final compensation (FAC), with a maximum benefit of 80% FAC for the general and administrative employees. The most recent period of which actuarial data was available was for the fiscal year ended December 31, 2003.

MERS was organized pursuant to Section 12A of Act #156, Public Acts of 1851 (MSA 5.333 (a); MCLA 46.12 (a), as amended, State of Michigan. MERS is regulated under Public Act No. 427 of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 447 North Canal Street, Lansing, Michigan 48917-9755.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the Road Commission's competitive bargaining units. The employee contribution for the year ending December 31, 2003 was 1.5% of gross wages for general employees and 1.5% of gross wages for administrative employees. The Road Commission was required to contribute at an actuarially determined rate; the current rate was 8.69% and 10.60% of annual compensation at December 31, 2002 for the general and administrative groups, respectively, of annual compensation.

NOTE 10 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

Annual Pension Cost

For the year ended December 31, 2004, the Road Commission's annual pension cost was \$104,017 based on the actuarially determined rate for 2001. The employees contributed \$17,276 in accordance with the union and personnel agreements. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8% and annual salary increases of 4.5% based on an age-related scale to reflect merit, longevity, and promotional salary increases.

Three year trend information for GASB Statement No. 27

<u>Year Ended Dec 31</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2001	\$ 100,435	100%	0%
2002	90,394	100%	0%
2003	104,017	100%	0%

Required Supplementary Information for GASB Statement No. 27

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded Actuarial Accrued Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percent of Covered Payroll</u>
2001	\$ 4,547,130	\$ 5,070,630	523,500	90%	\$ 1,105,514	47%
2002	4,556,898	5,274,518	717,620	86%	1,142,640	63%
2003	4,767,569	5,379,367	611,798	89%	1,136,216	54%

NOTE 11 - CHANGE IN ACCOUNTING PRINCIPLE

Effective January 1, 2004, the County implemented several new accounting standards issued by GASB:

Statement No. 33, Accounting and Financial Reporting for Non-Exchange Transactions, as amended by Statement No. 36, Recipient Reporting for Certain Shared Non-Exchange Revenues, which establishes standards for recording non-exchange transactions on the modified accrual and accrual basis of accounting.

NOTE 11 - CHANGE IN ACCOUNTING PRINCIPLE (Continued)

Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments, as amended by Statement No. 37, Basic Financial Statements – Management’s Discussion and Analysis – for State and Local Governments Omnibus, which established new financial reporting standards for state and local governments. This statement requires significant change in the financial reporting model used by local governments, eliminating account groups and utilizing full accrual basis of accounting and the economic resources measurement focus. Another significant change is the Management Discussion and Analysis Section, which provides an overall analysis of the financial position and results of operations and conditions that could have significant effect on the financial position or results of operations.

Statement No. 38, Certain Financial Statement Note Disclosures, which requires certain note disclosures when implementing GASB Statement 34.

NOTE 12 - LEASES

Capital Leases – The County leases an ambulance under capital lease with yearly lease payment of \$30,721, including an interest rate of 2.95%. The lease qualifies as capital leases for accounting purposes and therefore have been recorded at the present value of future minimum lease payments as of the inception date. The future minimum lease obligations and the net present values are as follows:

2005	\$	30,721
2006		30,721
2007		<u>7,495</u>
Total minimum lease payments		68,937
Less amount representing interest		<u>(3,252)</u>
Present value of minimum lease payment	\$	<u><u>65,685</u></u>

Required Supplemental Information

County of Osceola, Michigan

Required Supplemental Information Budgetary Comparison Schedule General Fund Year Ended December 31, 2004

	Budgeted Amounts			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual Amounts	
REVENUES:				
Taxes	\$ 4,542,188	\$ 4,525,047	\$ 4,182,203	\$ (342,844)
Licenses & Permits	22,150	35,500	46,609	11,109
Federal Sources	196,961	206,566	303,089	96,523
State Sources	94,459	439,712	337,339	(102,373)
Local Sources	29,318	36,890	26,692	(10,198)
Charges for Services	978,462	884,845	885,909	1,064
Refunds & Reimbursements	425,599	410,683	380,480	(30,203)
Interest & Rentals	90,000	90,000	108,056	18,056
Other Revenue	41,150	54,037	114,484	60,447
TOTAL REVENUES	6,420,287	6,683,280	6,384,861	(298,419)
EXPENDITURES:				
Legislative:				
Board of Commissioners	74,300	74,300	62,065	12,235
Judicial:				
Circuit Court	140,620	131,238	105,930	25,308
District Court	221,722	216,322	216,914	(592)
Jury Commission	4,042	4,042	1,998	2,044
Juvenile Division	247,943	245,924	212,764	33,160
Adult Probation	2,200	2,200	1,980	220
Probate Court	79,902	79,902	81,031	(1,129)
Public Defender	138,700	201,582	193,387	8,195
Total Judicial	835,129	881,210	814,004	67,206
General Government:				
County Coordinator	70,721	70,721	67,881	2,840
Professional	42,500	42,500	20,763	21,737
Elections	44,350	44,350	72,813	(28,463)
County Clerk	215,372	215,372	211,220	4,152
Equalization	156,007	157,257	154,793	2,464
Prosecuting Attorney	268,153	268,753	248,813	19,940
Crime Victims	47,436	47,436	44,484	2,952
Register of Deeds	183,481	183,481	174,409	9,072
Treasurer	172,394	188,052	177,229	10,823
Cooperative Extension	157,583	159,673	138,749	20,924
Buildings & Grounds	138,681	149,184	140,921	8,263
Human Services Building	55,077	55,077	52,646	2,431
Drain Commission	10,120	10,010	9,828	182
Sedimentation	12,757	12,776	12,578	198
General	324,433	329,859	277,009	52,850
Total General Government	1,899,065	1,934,501	1,804,136	130,365

Required Supplemental Information Budgetary Comparison Schedule General Fund Year Ended December 31, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Public Safety:				
Sheriff	1,089,090	1,091,180	1,087,369	3,811
Marine	27,575	27,575	22,645	4,930
Snowmobile	13,184	13,184	9,219	3,965
Road Patrol	61,994	61,994	51,533	10,461
Jail	1,037,721	1,056,521	1,029,792	26,729
Building Inspector/Other	479	979	391	588
Planning Department	4,835	4,835	1,605	3,230
Emergency Services	51,648	183,227	161,967	21,260
Animal Control	76,345	80,570	77,371	3,199
911	56,000	88,782	88,782	-
Total Public Safety	2,418,871	2,608,847	2,530,674	78,173
Health & Welfare:				
Solid Waste	4,099	4,099	350	3,749
Health Department	750	750	-	750
Medical Examiner	34,448	49,448	39,511	9,937
Veteran's Burial	15,600	15,600	14,100	1,500
Total Health & Welfare	54,897	69,897	53,961	15,936
Other Expenditures:				
Insurance & Bonds	177,266	294,633	324,800	(30,167)
Employee Benefits	152,000	174,910	194,710	(19,800)
Other Miscellaneous	305,418	321,166	303,767	17,399
Total Other Expenditures	634,684	790,709	823,277	(32,568)
TOTAL EXPENDITURES	5,916,946	6,359,464	6,088,117	271,347
EXCESS OF REVENUES OVER EXPENDITURES	503,341	323,816	296,744	(27,072)
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	389,340	65,924	228,788	162,864
Operating Transfers Out	(892,681)	(849,385)	(866,268)	(16,883)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	\$ -	\$ (459,645)	(340,736)	\$ 118,909
FUND BALANCE, JANUARY 1			1,503,125	
FUND BALANCE, DECEMBER 31			\$ 1,162,389	

Required Supplemental Information Budgetary Comparison Schedule Revenue Sharing Reserve Fund Year Ended December 31, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ -	\$ -	\$ 1,168,925	\$ 1,168,925
Charges for Services	-	-	-	-
Refunds & Reimbursements	-	-	-	-
Other Revenue	-	-	-	-
TOTAL REVENUES	-	-	1,168,925	1,168,925
EXCESS OF REVENUES (EXPENDITURES)	-	-	1,168,925	1,168,925
OTHER FINANCING SOURCES (USES):				
Operating Transfer Out	-	-	(175,831)	(175,831)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	\$ -	\$ -	993,094	\$ 993,094
FUND BALANCE, JANUARY 1			-	
FUND BALANCE, DECEMBER 31			\$ 993,094	

County of Osceola, Michigan

Required Supplemental Information Budgetary Comparison Schedule EMS Year Ended December 31, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 514,018	\$ 514,018	\$ 508,797	\$ (5,221)
Charges for Services	500,000	586,018	666,912	80,894
Interest & Rentals	-	-	4,226	4,226
Other Revenue	3,550	3,550	2,256	(1,294)
TOTAL REVENUES	1,017,568	1,103,586	1,182,191	78,605
EXPENDITURES:				
Health & Welfare	993,568	1,050,086	1,136,414	(86,328)
Debt Service	38,000	101,790	69,303	32,487
TOTAL EXPENDITURES	1,031,568	1,151,876	1,205,717	(53,841)
EXCESS OF REVENUES OVER EXPENDITURES	(14,000)	(48,290)	(23,526)	24,764
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	14,000	78,290	78,290	-
Operating Transfers Out	-	(30,000)	(30,000)	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	\$ -	\$ -	24,764	\$ 24,764
FUND BALANCE, JANUARY 1			136,310	
FUND BALANCE, DECEMBER 31			\$ 161,074	

Other Supplemental Information

County of Osceola, Michigan

Combining Balance Sheet Nonmajor Governmental Funds December 31, 2004

	Special Revenue Funds								
	Michigan Justice Training	Friend of Court	Community Corrections	Survey Remonumentation	Public Improvement	Building Inspection	Register of Deeds Automation	Budget Stabilization	Disaster Contingency
ASSETS:									
Cash & Investments - Unrestricted	\$ 10,219	\$ 87,891	\$ 6,734	\$ -	\$ 303,465	\$ 118,107	\$ 53,811	\$ 50,000	\$ 1,923
Receivables:									
Accounts	-	-	-	-	-	-	-	-	-
Taxes	-	-	-	-	-	-	-	-	-
Due from Governmental Units	-	90,683	-	33,911	-	-	-	-	-
TOTAL ASSETS	<u>\$ 10,219</u>	<u>\$ 178,574</u>	<u>\$ 6,734</u>	<u>\$ 33,911</u>	<u>\$ 303,465</u>	<u>\$ 118,107</u>	<u>\$ 53,811</u>	<u>\$ 50,000</u>	<u>\$ 1,923</u>
LIABILITIES:									
Due to Other Funds	\$ -	\$ -	\$ -	\$ 9,581	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts Payable	-	8,574	227	22,892	47,592	993	-	-	-
Accrued Liabilities	-	6,098	1,157	-	-	2,678	-	-	-
Deferred Revenue	-	-	-	-	-	-	-	-	-
TOTAL LIABILITIES	<u>-</u>	<u>14,672</u>	<u>1,384</u>	<u>32,473</u>	<u>47,592</u>	<u>3,671</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES:									
Unreserved	10,219	163,902	5,350	1,438	255,873	114,436	53,811	50,000	1,923
TOTAL FUND BALANCES	<u>10,219</u>	<u>163,902</u>	<u>5,350</u>	<u>1,438</u>	<u>255,873</u>	<u>114,436</u>	<u>53,811</u>	<u>50,000</u>	<u>1,923</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 10,219</u>	<u>\$ 178,574</u>	<u>\$ 6,734</u>	<u>\$ 33,911</u>	<u>\$ 303,465</u>	<u>\$ 118,107</u>	<u>\$ 53,811</u>	<u>\$ 50,000</u>	<u>\$ 1,923</u>

County of Osceola, Michigan

Combining Balance Sheet Nonmajor Governmental Funds December 31, 2004

	Speical Revenue Funds								
	Officer Training	Drug Enforcement	Drug Enforcement	Dare Operations	Law Library	Commission On Aging	Commission On Aging	Meals on Wheels	FIA
ASSETS:									
Cash & Investments - Unrestricted	\$ 7,988	\$ 17,702	\$ 29,743	\$ 14,415	\$ 1,519	\$ 84,855	\$ 111,725	\$ 17,826	\$ 17,664
Receivables:									
Accounts	440	-	-	-	-	-	-	-	-
Taxes	-	-	-	-	-	-	434,015	-	-
Due from Governmental Units	-	-	840	-	-	20,697	-	14,627	140
TOTAL ASSETS	<u>\$ 8,428</u>	<u>\$ 17,702</u>	<u>\$ 30,583</u>	<u>\$ 14,415</u>	<u>\$ 1,519</u>	<u>\$ 105,552</u>	<u>\$ 545,740</u>	<u>\$ 32,453</u>	<u>\$ 17,804</u>
LIABILITIES:									
Due to Other Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,000	\$ -	\$ -	\$ -
Accounts Payable	-	-	-	527	320	117	2,252	18,762	-
Accrued Liabilities	-	-	-	-	-	6,496	10,328	1,541	1
Deferred Revenue	-	-	-	-	-	-	434,015	-	-
TOTAL LIABILITIES	<u>-</u>	<u>-</u>	<u>-</u>	<u>527</u>	<u>320</u>	<u>8,613</u>	<u>446,595</u>	<u>20,303</u>	<u>1</u>
FUND BALANCES:									
Unreserved	8,428	17,702	30,583	13,888	1,199	96,939	99,145	12,150	17,803
TOTAL FUND BALANCES	<u>8,428</u>	<u>17,702</u>	<u>30,583</u>	<u>13,888</u>	<u>1,199</u>	<u>96,939</u>	<u>99,145</u>	<u>12,150</u>	<u>17,803</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 8,428</u>	<u>\$ 17,702</u>	<u>\$ 30,583</u>	<u>\$ 14,415</u>	<u>\$ 1,519</u>	<u>\$ 105,552</u>	<u>\$ 545,740</u>	<u>\$ 32,453</u>	<u>\$ 17,804</u>

County of Osceola, Michigan

Combining Balance Sheet
Nonmajor Governmental Funds
December 31, 2004

	Special Revenue Funds				Debt Service Fund	Capital Project Fund	Permanent Fund	
	Child Care	Veteran's Trust	Equipment & Maintenance	Housing Grant	Building Authority	District Court	Cemetery Trust	Totals
ASSETS:								
Cash & Investments - Unrestricted	\$ 332,703	\$ 688	\$ 88,620	\$ 3,143	\$ -	\$ 30,470	\$ 302	\$ 1,391,513
Receivables:								
Accounts	-	-	-	-	-	-	-	440
Taxes	-	-	-	-	-	-	-	434,015
Due from Governmental Units	-	-	473	9,079	-	857	-	171,307
TOTAL ASSETS	<u>\$ 332,703</u>	<u>\$ 688</u>	<u>\$ 89,093</u>	<u>\$ 12,222</u>	<u>\$ -</u>	<u>\$ 31,327</u>	<u>\$ 302</u>	<u>\$ 1,997,275</u>
LIABILITIES:								
Due to Other Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11,581
Accounts Payable	-	-	227	9,079	-	-	-	111,562
Accrued Liabilities	-	-	-	-	-	-	-	28,299
Deferred Revenue	-	-	-	-	-	-	-	434,015
TOTAL LIABILITIES	<u>-</u>	<u>-</u>	<u>227</u>	<u>9,079</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>585,457</u>
FUND BALANCES:								
Unreserved	332,703	688	88,866	3,143	-	31,327	302	1,411,818
TOTAL FUND BALANCES	<u>332,703</u>	<u>688</u>	<u>88,866</u>	<u>3,143</u>	<u>-</u>	<u>31,327</u>	<u>302</u>	<u>1,411,818</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 332,703</u>	<u>\$ 688</u>	<u>\$ 89,093</u>	<u>\$ 12,222</u>	<u>\$ -</u>	<u>\$ 31,327</u>	<u>\$ 302</u>	<u>\$ 1,997,275</u>

County of Osceola, Michigan

Statement of Revenues, Expenditures, and Changes in Fund Balance Nonmajor Governmental Funds Year Ended December 31, 2004

	Special Revenue Funds								
	Michigan Justice Training	Friend of Court	Community Corrections	Survey Remonumentation	Public Improvement	Building Inspection	Register of Deeds Automation	Budget Stabilization	Disaster Contingency
REVENUES:									
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Federal Sources	-	259,397	-	-	-	-	-	-	-
State Sources	3,837	-	48,228	66,190	81	-	-	-	-
Local Sources	-	-	-	-	-	-	-	-	-
Charges for Services	-	42,307	-	-	-	215,563	-	-	-
Refunds & Reimbursements	-	-	6,010	-	-	-	-	-	-
Interest & Rentals	-	-	-	-	-	1,438	691	-	-
Other Revenue	-	-	-	-	1,620	-	-	-	-
TOTAL REVENUES	3,837	301,704	54,238	66,190	1,701	217,001	691	-	-
EXPENDITURES:									
Judicial	-	308,077	-	-	-	-	-	-	-
General Government	-	-	-	-	-	190,625	11,625	-	-
Public Safety	2,181	-	65,021	-	-	-	-	-	-
Health & Welfare	-	-	-	72,752	-	-	-	-	-
Capital Outlay	-	-	-	-	165,386	-	-	-	-
Debt Service	-	-	-	-	-	-	-	-	-
TOTAL EXPENDITURES	2,181	308,077	65,021	72,752	165,386	190,625	11,625	-	-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,656	(6,373)	(10,783)	(6,562)	(163,685)	26,376	(10,934)	-	-
OTHER FINANCING SOURCES (USES):									
Operating Transfers In	-	142,258	11,000	8,000	508,081	-	39,760	50,000	-
Operating Transfers Out	-	-	-	-	(135,706)	-	(15,000)	-	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	1,656	135,885	217	1,438	208,690	26,376	13,826	50,000	-
FUND BALANCES, January 1	8,563	28,017	5,133	-	47,183	88,060	39,985	-	1,923
FUND BALANCES, December 31	\$ 10,219	\$ 163,902	\$ 5,350	\$ 1,438	\$ 255,873	\$ 114,436	\$ 53,811	\$ 50,000	\$ 1,923

County of Osceola, Michigan

Statement of Revenues, Expenditures, and Changes in Fund Balance Nonmajor Governmental Funds Year Ended December 31, 2004

	Special Revenue Funds								
	Officer Training	Drug Enforcement	Drug Enforcement	Dare Operations	Law Library	Commission On Aging	Commission On Aging	Meals on Wheels	FIA
REVENUES:									
Taxes	\$ -	\$ -	\$ -	\$ -	\$ 3,500	\$ -	\$ 407,184	\$ -	\$ -
Federal Sources	-	-	-	-	-	98,071	-	122,910	-
State Sources	9,328	-	-	-	-	112,349	21,258	34,545	54,090
Local Sources	-	-	-	320	-	-	-	1,355	-
Charges for Services	-	-	-	-	-	-	-	-	-
Refunds & Reimbursements	-	-	-	-	-	-	-	-	-
Interest & Rentals	-	-	-	-	-	-	3,728	-	-
Other Revenue	-	14,028	15,979	3,400	-	2,812	21,280	45,434	-
TOTAL REVENUES	9,328	14,028	15,979	3,720	3,500	213,232	453,450	204,244	54,090
EXPENDITURES:									
Judicial	-	-	-	-	13,258	-	-	-	-
General Government	900	-	-	-	-	-	-	-	-
Public Safety	-	-	3,892	4,765	-	-	-	-	-
Health & Welfare	-	-	-	-	-	173,823	413,524	227,678	55,728
Capital Outlay	-	-	-	-	-	-	-	-	-
Debt Service	-	-	-	-	-	-	-	-	-
TOTAL EXPENDITURES	900	-	3,892	4,765	13,258	173,823	413,524	227,678	55,728
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	8,428	14,028	12,087	(1,045)	(9,758)	39,409	39,926	(23,434)	(1,638)
OTHER FINANCING SOURCES (USES):									
Operating Transfers In	-	-	3,892	-	10,000	-	10,200	-	12,000
Operating Transfers Out	-	(3,892)	-	-	-	(10,200)	-	-	(4,807)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	8,428	10,136	15,979	(1,045)	242	29,209	50,126	(23,434)	5,555
FUND BALANCES, January 1	-	7,566	14,604	14,933	957	67,730	49,019	35,584	12,248
FUND BALANCES, December 31	\$ 8,428	\$ 17,702	\$ 30,583	\$ 13,888	\$ 1,199	\$ 96,939	\$ 99,145	\$ 12,150	\$ 17,803

County of Osceola, Michigan

Statement of Revenues, Expenditures, and Changes in Fund Balance Nonmajor Governmental Funds Year Ended December 31, 2004

	Special Revenue Funds				Debt Service Fund	Capital Project Fund	Permanent Fund	
	Child Care	Veteran's Trust	Equipment & Maintenance	Housing Grant	Building Authority	District Court	Cemetery Trust	Totals
REVENUES:								
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 410,684
Federal Sources	-	-	-	58,120	-	-	-	538,498
State Sources	18,818	1,474	41,350	3,143	-	-	-	414,691
Local Sources	-	-	-	-	-	-	-	1,675
Charges for Services	-	-	-	-	-	-	-	257,870
Refunds & Reimbursements	70,173	-	-	-	-	-	-	76,183
Interest & Rentals	-	-	-	-	-	-	3	5,860
Other Revenue	-	-	1,250	-	-	16,292	-	122,095
TOTAL REVENUES	88,991	1,474	42,600	61,263	-	16,292	3	1,827,556
EXPENDITURES:								
Judicial	-	-	-	-	-	-	-	321,335
General Government	-	-	-	-	-	-	-	203,150
Public Safety	-	-	-	-	-	-	-	75,859
Health & Welfare	237,918	1,151	-	58,120	-	-	2	1,240,696
Capital Outlay	-	-	23,551	-	-	-	-	188,937
Debt Service	-	-	-	-	135,706	-	-	135,706
TOTAL EXPENDITURES	237,918	1,151	23,551	58,120	135,706	-	2	2,165,683
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(148,927)	323	19,049	3,143	(135,706)	16,292	1	(338,127)
OTHER FINANCING SOURCES (USES):								
Operating Transfers In	200,000	-	-	-	135,706	-	-	1,130,897
Operating Transfers Out	-	-	(4,050)	-	-	(15,000)	-	(188,655)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	51,073	323	14,999	3,143	-	1,292	1	604,115
FUND BALANCES, January 1	281,630	365	73,867	-	-	30,035	301	807,703
FUND BALANCES, December 31	\$ 332,703	\$ 688	\$ 88,866	\$ 3,143	\$ -	\$ 31,327	\$ 302	\$ 1,411,818

County of Osceola, Michigan

Combining Statement of Net Assets Nonmajor Enterprise Funds December 31, 2004

	Park & Recreations	Commissary	Vested Benefits	Tax Revolving Admin	2001 Delinquent Tax	2002 Delinquent Tax	Totals
ASSETS:							
Cash & Investments -Unrestricted	\$ 66,095	\$ 3,928	\$ 104,870	\$ 1,214	\$ -	\$ 367,942	\$ 544,049
Receivables:							
Taxes	-	-	-	-	-	65,879	65,879
Interest	-	-	-	-	-	21,740	21,740
Due From Others	-	-	-	-	-	1,806	1,806
Capital Assets - net	230,062	-	-	-	-	-	230,062
TOTAL ASSETS	<u>\$ 296,157</u>	<u>\$ 3,928</u>	<u>\$ 104,870</u>	<u>\$ 1,214</u>	<u>\$ -</u>	<u>\$ 457,367</u>	<u>\$ 863,536</u>
LIABILITIES:							
Current Liabilities:							
Due to Other Funds	\$ 28,003	\$ -	\$ -	\$ -	\$ -	\$ 200,000	\$ 228,003
Accrued Liabilities	835	-	-	-	-	-	835
TOTAL LIABILITIES	<u>28,838</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>200,000</u>	<u>228,838</u>
NET ASSETS:							
Invested in Capital Assets (net of related debt)	230,062	-	-	-	-	-	230,062
Unrestricted	37,257	3,928	104,870	1,214	-	257,367	404,636
TOTAL NET ASSETS	<u>267,319</u>	<u>3,928</u>	<u>104,870</u>	<u>1,214</u>	<u>-</u>	<u>257,367</u>	<u>634,698</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 296,157</u>	<u>\$ 3,928</u>	<u>\$ 104,870</u>	<u>\$ 1,214</u>	<u>\$ -</u>	<u>\$ 457,367</u>	<u>\$ 863,536</u>

County of Osceola, Michigan

Combining Statement of Revenues, Expenses, and Changes in Net Assets - Nonmajor Enterprise Funds Year Ended December 31, 2004

	Park & Recreations	Commissary	Vested Benefits	Tax Revolving Admin	2001 Delinquent Tax	2002 Delinquent Tax	Totals
OPERATING REVENUES:							
Charges for Services	\$ 161,386	\$ 45,571	\$ -	\$ -	\$ -	\$ 26,270	233,227
Interest & Rentals	464	-	-	-	-	49,712	50,176
TOTAL OPERATING REVENUES	161,850	45,571	-	-	-	75,982	283,403
OPERATING EXPENSES:							
Other Expenses	148,000	44,848	-	-	-	-	192,848
Total Operating Expenses	148,000	44,848	-	-	-	-	192,848
OPERATING INCOME (LOSS)	13,850	723	-	-	-	75,982	90,555
NON-OPERATING REVENUES (EXPENSES):							
Transfers In	-	-	10,000	-	-	-	10,000
Transfers Out	-	-	(3,150)	-	(258,860)	-	(262,010)
Total Non-Operating Expenses	-	-	6,850	-	(258,860)	-	(252,010)
CHANGE IN NET ASSETS	13,850	723	6,850	-	(258,860)	75,982	(161,455)
NET ASSETS, January 1	253,469	3,205	98,020	1,214	258,860	181,385	796,153
NET ASSETS, December 31	\$ 267,319	\$ 3,928	\$ 104,870	\$ 1,214	\$ -	\$ 257,367	\$ 634,698

County of Osceola, Michigan

Combining Statement of Cash Flows Nonmajor Enterprise Funds Year Ended December 31, 2004

	Parks & Recreation	Commissary	Vested Benefits	Tax Revolving Admin	2001 Delinquent Tax	2002 Delinquent Tax	Totals
Cash Flows From Operating Activities:							
Cash Received From Customers or Users	\$ 161,850	\$ 45,571	\$ -	\$ -	\$ -	\$ 614,157	\$ 821,578
Cash Payments to Suppliers/Others	(103,663)	(44,848)	-	-	(128,888)	(1,500,000)	(1,777,399)
Net Cash Provided (Used) by Operating Activities	58,187	723	-	-	(128,888)	(885,843)	(955,821)
Cash Flows from Non-Capital and Related Financing Activities:							
Net Operating Transfers In (Out)	-	-	6,850	-	(258,860)	-	(252,010)
Net Cash Provided (Used) by Non-Capital and Related Financing Activities	-	-	6,850	-	(258,860)	-	(252,010)
Cash Flows from Capital and Related Financing Activities:							
Purchase of Building Improvements	(48,986)	-	-	-	-	-	(48,986)
Net Cash Provided (Used) by Capital and Related Financing Activities	(48,986)	-	-	-	-	-	(48,986)
Net Increase (Decrease) in Cash	9,201	723	6,850	-	(387,748)	(885,843)	(1,256,817)
Cash and Cash Equivalents at Beginning of Year	56,894	3,205	98,020	1,214	387,748	1,253,785	1,800,866
Cash and Cash Equivalents at End of Year	\$ 66,095	\$ 3,928	\$ 104,870	\$ 1,214	\$ -	\$ 367,942	\$ 544,049
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:							
Operating Income (Loss)	13,850	723	-	-	-	75,982	90,555
Non-cash and other nonoperating expenses:							
Depreciation Expense	16,112	-	-	-	-	-	16,112
Changes in Assets and Liabilities:							
Decrease (Increase) in Assets:							
Taxes Receivable	-	-	-	-	53,468	504,666	558,134
Interest Receivable	-	-	-	-	17,644	35,315	52,959
Due from Others	-	-	-	-	-	(1,806)	(1,806)
Increase (Decrease) in Liabilities:							
Due to Other Funds	28,003	-	-	-	(200,000)	(1,500,000)	(1,671,997)
Accrued Liabilities	222	-	-	-	-	-	222
Net Cash Provided (Used) by Operating Activities	\$ 58,187	\$ 723	\$ -	\$ -	\$ (128,888)	\$ (885,843)	\$ (955,821)

Reports on Compliance



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Honorable Chairman and Members of
The Board of Commissioners
County of Osceola, Michigan
301 West Upton Avenue
Reed City, MI 49677

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Osceola, Michigan, except for the Osceola County Road Commission, which was audited by other auditors, as of and for the year ended December 31, 2004, which collectively comprise the County of Osceola Michigan's basic financial statements and have issued our report thereon, dated May 5, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Osceola County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over the financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment could adversely affect Osceola County's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and responses as items 99-1.

Honorable Chairman and Members
of the Board of Commissioners
County of Osceola, Michigan

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County of Osceola, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our test disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying schedule of findings and response as item 2004-1.

This report is intended solely for the information and use of the Board of Commissioners, management, federal awarding agencies, pass-through entities and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.



Anderson, Tackman & Company, PLC
Certified Public Accountants

May 5, 2005



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Members of the Board
County of Osceola, Michigan
301 West Upton Avenue
Reed City, MI 49677

Compliance

We have audited the compliance of the County of Osceola, Michigan with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2004. The County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the County's compliance with those requirements.

In our opinion, the County of Osceola, Michigan complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2004.

Honorable Chairman and Members
of the Board of Commissioners
County of Osceola, Michigan

Internal Control Over Compliance

The management of the County of Osceola, Michigan is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the County of Osceola, Michigan's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Commissioners, audit committee, management, federal awarding agencies, pass-through entities and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.



Anderson, Tackman & Company, PLC
Certified Public Accountants

May 5, 2005

County of Osceola, Michigan

Schedule of Expenditures of Federal Awards Year Ended December 31, 2004

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Housing and Urban Development:			
Pass-through from the Michigan State Housing Development Authority (MSHDA):			
Community Development Block Grant - 2002	14.228	MCS-2002-0541-HOA	49,041
Community Development Block Grant - 2003	14.228	MCS-2003-0541-HOA	9,079
Total U.S. Department of Housing and Urban Development			58,120
Federal Emergency Management Agency:			
Passed through the MI Department of State Police			
2002 State Domestic Preparedness Program	97.004	-	34,250
Part 1 State Homeland Security Grant Program	97.004	-	39,174
2003 State Homeland Security Program Solution Area Planner	97.004	-	11,239
2003 State Homeland Security Program Exercise Grant	97.004	-	6,850
Emergency Management Grant 10/01/03 to 9/30/04	97.042	-	17,432
2002 Supplemental Planning Grant	97.051	-	11,830
Total U.S. Department of Homeland Security			120,775
U.S. Department of Health and Human Services:			
Passed through on Area Agency on Aging of Western Michigan			
Assisted Transportation, Title IIIB - 10/1/03 to 9/30/04	93.044	51.72	11,923
Assisted Transportation, Title IIIB - 10/1/04 to 9/30/05	93.044	51.72	1,620
Homemaker Aide, Title IIID - 10/1/03 to 9/30/04	93.044	51.72	5,722
Outreach Assistance, Title IIIB - 10/1/03 to 9/30/04	93.044	51.72	9,129
Outreach Assistance, Title IIIB - 10/1/04 to 9/30/05	93.044	51.72	2,140
Congregate Meals - Title IIIC-1, 10/1/03 to 9/30/04	93.045	61.72	26,174
Congregate Meals - Title IIIC-1, 10/1/04 to 9/30/05	93.045	61.72	5,543
Home Delivered Meals - Title IIIC-2, 10/1/03 to 9/30/04	93.045	61.72	48,358
Home Delivered Meals - Title IIIC-2, 10/1/04 to 9/30/05	93.045	61.72	10,592
Congregate Meals - NISP-T3C1, 10/1/03 to 9/30/04	93.053	-	16,752
Congregate Meals - NISP-T3C1, 10/1/04 to 9/30/05	93.053	-	4,127
Federal Respite 10/1/03 to 9/30/04	93.052	51.72	15,182
Federal Respite 10/1/04 to 9/30/05	93.052	51.72	1,142
Medicaid Waver	93.778	-	62,577
Total pass through AAAWM			220,981
Passed through from MI Family Independence Agency			
Friend of Court - Incentive	93.560	-	56,567
Friend of Court - Child Support 10/1/03 to 9/30/03	93.563	CS/FOC-02-67001	147,123
Friend of Court - Child Support 10/1/04 to 9/30/05	93.563	CS/FOC-03-67001	55,707
Prosecuting Attorney - Child Support 10/1/03 to 9/30/04	93.563	CSPA-2004-67002	27,788
Prosecuting Attorney - Child Support 10/1/04 to 9/30/05	93.563	CSPA-2005-67002	18,049
Total MIFIA			305,234
Total U.S. Department of Health and Human Services			526,215
U.S. Department of Transportation:			
Pass-through from the Michigan Department of Transportation			
Road Projects (See Note D)	20.205	-	23,330
Pass-through from the Michigan Department of State Police, Emergency Management Division			
Hazardous Materials Emergency Preparedness 2003-2004	20.703	-	3,801
Total U.S. Department of Transportation			27,131
U.S. Department of Justice:			
Direct Award:			
COPS in School	16.710	2003 SHWX 0064	132,676
Total U.S. Department of Justice			132,676
Total Federal Expenditures			864,917

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the County of Osceola, Michigan and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B - COGNIZANT AGENCY

The County has not been assigned a cognizant agency. Therefore, the County is under the general oversight of the U.S. Department of Justice which provided the greatest amount of direct federal funding to the County during 2004.

NOTE C - FEDERAL REVENUES

Federal Revenues per Financial Statement	\$ 841,587
Federal Expenditures of Road Commission	<u>23,330</u>
Total Federal Expenditures	<u>\$ 864,917</u>

NOTE D - FEDERAL GRANTS – ROAD COMMISSION:

The Michigan Department of Transportation (MDOT) requires that road commissions report all Federal and State grants pertaining to their county. During the fiscal year ended December 31, 2004, the Federal aid received and expended by the Road Commission was \$418 for contracted projects. Contracted projects are defined as projects performed by private contractors that are paid for and administrated by MDOT. The contracted Federal projects are not subject to single audit requirements by the road commission, as they are included in MDOT's single audit.

Section A - Summary of Auditors' Results**Financial Statements**

Type of auditors' report issued:	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	No
Reportable conditions identified that are not considered to be material weaknesses?	Yes
Noncompliance material to financial statements noted?	Yes

Federal Awards

Internal control over major programs:	
Material weaknesses identified?	No
Reportable conditions identified that are not considered to be material weaknesses?	No
Type of auditors' report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	No

Identification of Major Programs**CFDA NUMBERS****Name of Federal Program or Cluster**

93.563	Child Support Enforcement
16.710	COPS in School
14.228	Community Development Block Grant
Dollar threshold used to distinguish between type A and type B programs:	\$300,000
Auditee qualified as low-risk auditee?	No

B. FINDINGS - FINANCIAL STATEMENTS AUDIT**04-1. Excess Expenditures Over Appropriations**

Public Act 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. In the body of the financial statements, the County's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The General Fund budget is adopted at the functional level and the Special Revenue funds are adopted in total. During the year ended December 31, 2004 the County incurred expenditures in certain budgetary funds which were in excess of the amount appropriated as follows:

	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
General:			
Other Expenditures	\$ 790,709	\$ 823,277	\$ (32,558)
Special Revenue:			
Revenue Sharing Reserve	-	175,831	(175,831)
EMS	1,151,876	1,205,717	(53,841)
Social Welfare	12,000	55,728	(43,728)
Housing Grant	-	58,120	(58,120)

C. FINDINGS - FEDERAL AWARDS AND QUESTIONED COSTS

NONE.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

03-1 Excess Expenditures Over Appropriations

Public Act 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. In the body of the financial statements, the County's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The General fund budget is adopted at the functional level and the Special Revenue funds are adopted in total. During the year ended December 31, 2003 the County incurred expenditures in certain budgetary funds which were in excess of the amount appropriated as follows:

	<u>Total</u> <u>Appropriations</u>	<u>Amount of</u> <u>Expenditures</u>	<u>Budget</u> <u>Variance</u>
Special Revenue:			
Family Independence Agency	-	92,653	(92,653)

Response: Similar variances were noted in current year.

99-1. Bond Accounts – Circuit Court

Condition/Recommendation: The outstanding bond listings for the Circuit Court have not been reconciled to the general ledger control accounts. The bond listing for Circuit Court should be reconciled in a timely manner. Failure to complete reconciliations could also lead to inaccuracies. Timely reconciliations are a required part of adequate internal control.

Status: Issue has not been corrected at year-end.

Response: Osceola County is aware of the need to reconcile the Circuit Court bond account. The process to balance these accounts has already begun and will be completed upon year's end.

C. FINDINGS - MAJOR FEDERAL AWARDS PROGRAMS AUDIT

NONE.

Additional Information

COUNTY OF OSCEOLA, MICHIGAN

ADDITIONAL INFORMATION

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION	64
Note 1 - Debt Issues Applicable to SEC Rule 15c2-12	
Disclosure Requirements	65
Note 2 - Tables:	
A - State Equalized Valuation.....	65
B - Taxable Valuation	65
C - County Tax Rates and Levies	66
D - Tax Collection Record	66
E - General Fund Revenues and Expenditures	67
F - Debt Statement (Direct and Overlapping Debt).....	67



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INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION

Honorable Chairman & Members
of the Board of Commissioners
County of Osceola, Michigan
301 West Upton Avenue
Reed City, MI 49677

Our report on our audit of the basic financial statements of the County of Osceola, Michigan, as of and for the year ended December 31, 2004, appears on page 1. That audit was conducted for the purpose of forming an opinion on the basic financial statements which collectively comprise the County of Osceola, Michigan. The additional information listed on the following pages regarding the Municipal securities disclosure requirements of the Securities Exchange Commission (SEC) Rule 15c2-12 is presented for purposes of additional analysis and is not a required part of the basic financial statements, and accordingly, we express no opinion on it.

Anderson, Tackman & Company, PLC
Certified Public Accountants

May 5, 2005

NOTE 1 - DEBT ISSUES APPLICABLE TO SEC RULE 15c2-12 DISCLOSURE REQUIREMENTS:

Debt issues of \$1,000,000 or more sold on or after July 3, 1995 are applicable to SEC rule 15c2-12 disclosure requirements. As of December 31, 2004, the County has the following debt issues which apply to SEC Rule 15c2-12:

1. \$1,600,000 1998 Building Authority Bonds.
2. \$3,750,000 2004 Building Authority Bonds.

NOTE 2 - TABLES:

The following tables are included in the debt issues and are required to be updated annually to comply with the Municipal Securities disclosure requirements of the SEC Rule 15c2-12:

A. State Equalized Valuation:

	50% of True Value
2004 -	\$ 826,439,091
2003 -	780,322,226
2002 -	700,343,370
2001 -	629,252,918
2000 -	578,532,624
1999 -	516,397,514
1998 -	459,473,855
1997 -	421,524,170
1996 -	385,383,377

Source: Osceola County

B. Taxable Valuation:

2004 -	\$ 566,650,491
2003 -	543,030,238
2002 -	511,089,219
2001 -	479,380,961
2000 -	452,860,768
1999 -	424,045,357

2004 Breakdown by Use

Residential	63.79%
Commercial	4.78%
Industrial	2.50%
Personal Property	11.91%
Agricultural	17.02%
Timber-Cutover	<u>0.00%</u>
TOTAL	100.00%

NOTE 2 - TABLES: (Continued)

<u>2004 Breakdown by Class</u>	
Real	88.09%
Personal	<u>11.91%</u>
TOTAL	100.00%

Source: Osceola County

C. County Tax Rates & Levies:

	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
County Operating	6.4138	6.4138	6.4636	6.4883	6.5361
Mecosta-Osceola I/S/D	.2500	.2411	.2434	.2449	.2473
Wexford-Missaukee I/S/D	<u>.2749</u>	<u>.2761</u>	<u>.2792</u>	<u>.2809</u>	<u>.2832</u>
TOTAL ALL JURISDICITON	6.9387	6.9310	6.9862	7.0141	7.0666

Source: Osceola County

D. Tax Collection Record:

County of Osceola pays from a 100% Tax Payment Fund delinquent real property taxes of all municipalities in the County, including the County. Delinquent personal property taxes are negligible. The County's fiscal year begins January 1. County taxes are due December 1 and become delinquent the following March 1.

<u>Year</u>	<u>Tax Levy*</u>	<u>Amount**</u>	<u>%</u>	<u>%</u>
2004	\$ 18,851,394	\$ 16,949,069*	89.91%	-%
2003	17,262,790	15,466,753	89.60%	100%
2002	16,108,902	14,191,026	88.09%	100%
2001	15,855,306	14,011,240	88.36%	100%
2000	15,265,610	13,125,865	85.99%	100%
1999	14,177,977	12,326,540	86.94%	100%
1998	13,457,294	11,573,273	86.00%	100%
1997	13,256,204	11,466,616	86.50%	100%
1996	12,886,399	11,194,889	86.87%	100%
1995	12,095,165	10,283,004	85.02%	100%

*Includes real and personal property taxes.

** 246,923 additional levy.

Source: Osceola County

NOTE 2 - TABLES: (Continued)

E. General Fund Revenues and Expenditures:

	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Revenues & Transfers In	\$ 6,613,649	\$ 6,712,465	\$ 6,399,236	\$ 6,235,226
Expenditures & Transfers Out	<u>6,954,385</u>	<u>6,512,541</u>	<u>6,068,198</u>	<u>5,973,075</u>
Excess Revenues (Expenditures)	(340,736)	199,924	331,038	262,151
Beginning Fund Balance	<u>1,503,125</u>	<u>1,303,201</u>	<u>972,163</u>	<u>710,012</u>
ENDING FUND BALANCE	<u>\$ 1,162,389</u>	<u>\$ 1,503,125</u>	<u>\$ 1,303,201</u>	<u>\$ 972,163</u>

Source: Osceola County

F. Debt Statement:

	<u>Gross</u>	<u>Net</u>
Direct Debt of County:		
Building Authority	<u>\$ 4,950,000</u>	<u>4,950,000</u>
Total	<u>\$ 4,950,000</u>	<u>\$ 4,950,000</u>

In addition to the above, the County issues self-supporting Limited Tax Delinquent Fund Tax Notes each year which mature in 1 to 3 years. The last tax note was paid in full in March 2001. The County does not plan to issue tax notes in 2005.

Per Capita County Net Direct Debt	\$ 213.39
Percent County Net Direct Debt to TV	0.87%

OVERLAPPING DEBT OF COUNTY:

School Districts	\$ 25,037,511
Cities	379,000
Townships	-
Villages	1,903,000
Intermediate School Districts	<u>23,160</u>

Net Overlapping Debt	<u>\$ 27,342,671</u>
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Net County and Overlapping Debt	<u>\$ 32,942,671</u>
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Per Capita County Net Direct and Overlapping Debt	\$ 1,392.11
Percent Net Direct and Overlapping Debt to 2004 TV	5.70%

Source: County of Osceola and Municipal Advisory Council of Michigan



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

PHILLIP J. WOLF, CPA, PRINCIPAL
SUE A. BOWLBY, CPA, PRINCIPAL
KENNETH A. TALSMAN, CPA, PRINCIPAL

DEANNA J. MAYER, CPA

MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

REPORT TO MANAGEMENT

Members of the Osceola County
Board of Commissioners
301 West Upton Avenue
Reed City, Michigan 49677

We have audited the financial statements of the County of Osceola for the year ended December 31, 2004, and have issued our reports thereon dated May 5, 2005. Our professional standards require that we make several communications to you, the purpose of which is to assist you with additional information regarding the scope and results of the audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

Our Responsibility under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered the County of Osceola's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the County of Osceola's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the County of Osceola's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on the County of Osceola's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the County of Osceola's compliance with those requirements.

Significant Accounting Policies

Management has the responsibility for selection of appropriate accounting policies. In accordance with the terms of our engagement, we will advise management of the appropriateness of the accounting policies and their application. The significant accounting policies used by the County of Osceola are described in Note C. No new accounting policies were adopted and there were no changes to the application of any existing policies during the fiscal year. We noted no transactions entered into by the County of Osceola during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Management Judgments and Accounting Estimates

Some accounting estimates are utilized in financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. Our conclusions regarding the reasonableness of the estimates are based on reviewing and testing the historical data provided by management and using this data to compute the liability.

Significant Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the basic financial statements that, in our judgment, may not have been detected except through our auditing procedures. These adjustments may include those proposed by us but not recorded by the County of Osceola that could potentially cause future financial statements to be materially misstated, even though we have concluded such adjustments are not material to the current financial statements. Our audit adjustments, individually and in the aggregate, have a significant effect on the financial reporting process.

Disagreement with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether significant or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultation with Other Independent Accountants

In some cases, management may decide to consult with other accountants about accounting and auditing matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the County of Osceola or a determination of the type of auditor's opinion to be expressed on those statements, our professional standards require the consulting accountant to advise us as to determine the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in the performance of our audit.

Comments and Recommendations

Prior Year - Circuit Court Bonds Payable

The Circuit Court Bonds Payable Listing is not reconciled to the related general ledger account in the Trust & Agency Fund. Management believes the problem is caused by significant computer system "glitches". We recommend the software vendor be contacted to correct the problem as soon as possible and that the Circuit Court Bond Listing be agreed to the balance in the general ledger account in the Trust & Agency Fund.

Accounts Payable

Not all accounts payable were recorded as of December 31, 2004. We recommend that greater care be taken when posting the year end accounts payable to the general ledger.

Fixed Assets

Our review of fixed assets at year end revealed that several capital purchases were not inventoried. The County should implement an inventory form that can be completed by department heads each time they order equipment. The completed form should be handed into the assistant administrator to enable her to update the County listing in a timely and complete manner.

Response:

In the 2004 audit Report to Management letter, a reference is made to the accounting for fixed assets as some capital purchases were not included on the County's inventory. Following is a summary of the existing policy location, procedure and implemented changes.

The County's Annual Appropriations Act includes the purchasing policies and procedures to be followed by the departments. The County Coordinator's Office annually sends a memo and inventory list out to department heads requesting departments review the existing list and update any new purchases not on the inventory sheet. The departments are requested to inventory tag any new purchased item valued over \$50 not having an existing tag and to notify the Coordinator's Office with any additions or deletions to their inventory lists. It is stressed an accurate inventory is required for both insurance and accounting purposes.

As inventories are returned, they are noted and changes made in the computer system as needed. If the inventory request is not responded to, a second memo is forwarded to the departments requesting the updated inventory information. A reminder sticker is sometimes placed on the original purchase order(s) when issued indicating the item(s) needs to be inventoried.

A new inventory information reporting form has been developed and will be attached to the purchase order(s) along with an inventory tag(s) when issued. The distribution date of the purchase order and inventory form will be noted for tracking purposes. If the form is not returned to the Coordinator's Office once the capital purchase is received, it may affect the timeliness of any future purchase order issuance.

Building Authority Bonds – Road Commission Buildings

In 2004, the County Building Authority issued \$3,750,000 in general obligation bonds to construct buildings for the Osceola County Road Commission. The buildings will be used by the Road Commission, but the debt will remain with the County. The Road Commission will repay the principal and interest to the County and the County will remit payment to the financial institution. In order to simplify the accounting of this transaction for both the County and Road Commission, both entities should consider an assignment of the debt to the County Road Commission. Once an assignment is made the Road Commission will retain the buildings, debt, and the obligation to repay the debt.

Conclusion

We would like to express our appreciation, as well as that of our staff, for the excellent cooperation we received while performing the audit. If we can be of assistance in implementing the above recommendations, please contact us.

This report is intended solely for the information and use of the Board of Commissioners, management, federal awarding agencies, pass-through entities and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.



Anderson, Tackman & Company, PLC
Certified Public Accountants

May 5, 2005